UFP TECHNOLOGIES

2017 ANNUAL REPORT

ADVANCING OUR STRATEGY

INCREASING OUR VALUE

2017 ANNUAL REPORT

UFP Technologies, Inc. (Nasdaq: UFPT) is a producer of innovative custom-engineered components, products, and specialty packaging.

Using foams, plastics, composites, and natural fiber materials, we design and manufacture a vast range of solutions primarily for the medical, automotive, aerospace and defense, electronics, consumer and industrial markets. Our team acts as an extension of our customers' in-house research, engineering, and manufacturing groups, working closely with them to solve their most complex product and packaging challenges.

Learn more about us at www.ufpt.com.

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Dear Fellow Shareholder,

2017 was a successful and productive year for UFP Technologies. Earnings per share increased 14.5%, while operating income before restructuring costs and a one-time material settlement rose 10.4%. We continued to improve operations, reduce costs, and make substantial progress in positioning your Company for long-term profitable growth.

Throughout the year, we made meaningful investments in new capabilities, talent, and equipment. Then in February 2018 we completed our largest and most significant acquisition to date: Dielectrics, Inc. of Chicopee, Massachusetts. Below, I will explain why I believe these strategic additions will enhance our business and increase our value to customers and shareholders alike.

A highly complementary acquisition

The Dielectrics acquisition is a major leap forward for our medical business. In our profile of an ideal acquisition candidate, this company checks nearly every box. They have a strong management team and an innovative culture very similar to our own. They bring a blue-chip medical customer base and high-margin book of business that we expect will add solidly to earnings right away.

We also have many customers in common. In fact, around 60% of Dielectrics' customers are ours too. Because we each offer complementary (not competing) lines of highly engineered medical products, we see many opportunities to create synergies and move toward selling entire systems rather than simply component parts. Over time, this will enable us to expand into profitable new areas and address customer needs in a more comprehensive and cost-efficient way.

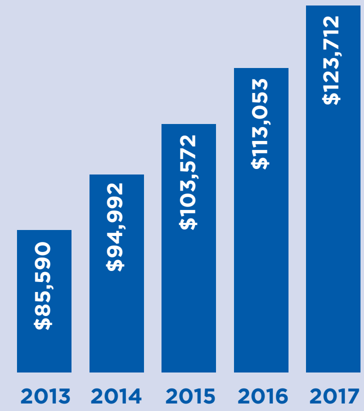
Separately, UFP and Dielectrics are known for delivering medical solutions with the very highest levels of precision, cleanliness and safety. Together, I am confident we can become even more valuable to customers. Please see the following pages for more on this key addition to the UFP family.

Medical momentum remains strong

Our medical sales rose 8.1% in 2017, and we are committed to continue growing this critical component of our business. As I have often said, the healthcare space is where customer needs and our unique engineering and problem-solving skills are most aligned. Because of the precision required, margins are typically higher. And because many medical products must undergo a rigorous FDA approval process, we can often count on secure, long-running programs that help maximize returns on our large upfront investments.

> “We continue to shift our business mix toward higher-margin opportunities and position UFP for long-term profitable growth.”

STOCKHOLDERS’ EQUITY



Going forward, macroeconomic trends like the aging U.S. population should help ensure strong demand for our medical solutions. In addition, a series of mergers in the healthcare space have created new opportunities for us. As these new larger companies seek to reduce their vendor base and realize potential synergies, bigger and more diverse suppliers like UFP have an edge over our smaller competitors. In 2017, we expanded existing clean rooms and added redundant medical manufacturing at various locations. These investments, combined with the Dielectrics acquisition, put us in strong position to accelerate our progress in this critical market.

Key internal growth initiatives

As we continue to shift our business mix toward higher-margin, longer-running opportunities, we are equally focused on reducing costs and improving operating efficiency. For example, after consolidating several plants in recent years, we are seeing solid productivity gains at major facilities such as Massachusetts and Michigan. We also added new automation in our Iowa molded fiber plant. This will raise output capacity to meet increasing demand, while improving overall quality and efficiency. It also helps us push back against low-cost competitors that have recently entered the market due to the growing trend toward environmentally friendly solutions.

In another important initiative, we enhanced our sales process by creating small integrated teams that include sales, engineering, and operations talent, all focused on converting new opportunities. And we continued to strengthen our vendor partnerships through long-term agreements aimed at accelerating growth and protecting our engineered solutions. By providing access to the latest material innovations, these close relationships create a powerful competitive advantage.

In closing, I believe your Company is dynamic, strong, and executing a focused strategy to grow even stronger. We also expect our cash flow will be improved by the Dielectrics acquisition, further planned efficiency improvements, and our new lower corporate tax rate. As we look forward to another exciting year, I wish to express my appreciation to our dedicated associates, welcome the new team from Dielectrics, and thank you for your support of UFP Technologies.

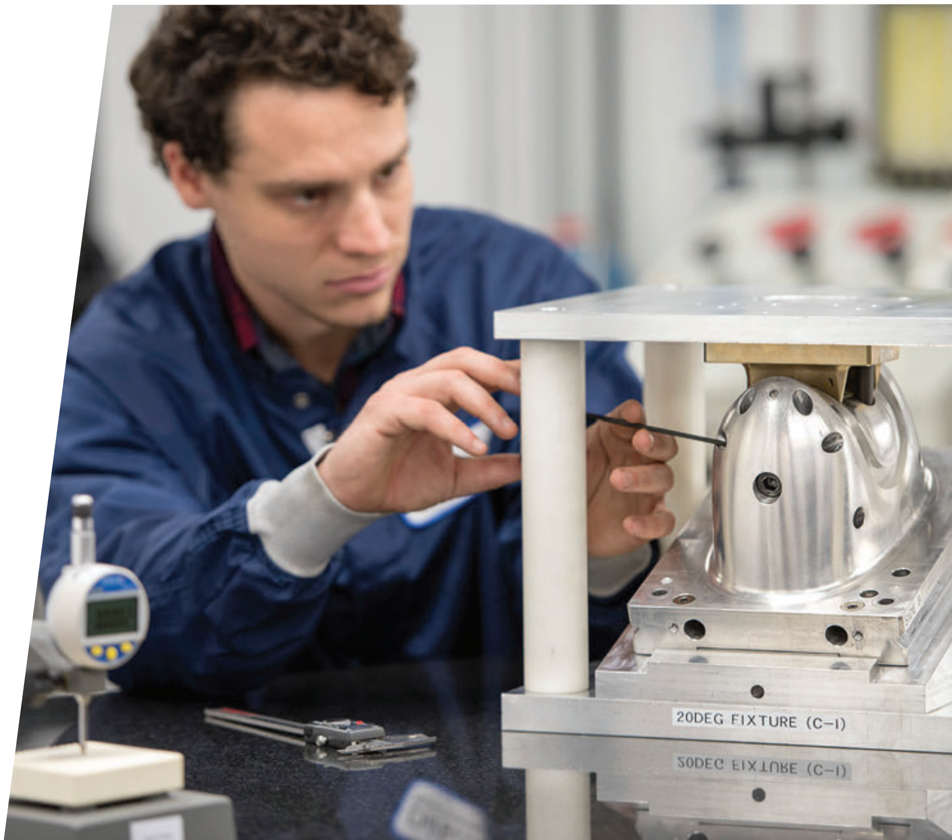
Sincerely,

R. Jeffrey Bailly
Chairman and CEO

Founded in 1954, Dielectrics is a highly respected, solidly profitable medical technology company. They specialize in the design and manufacture of custom-engineered complex assemblies, often utilizing RF and impulse welded films. The company generated $42 million in revenue in 2017. With 285 employees, Dielectrics operates a 100,000-square-foot facility in Chicopee, Massachusetts, focused mostly on clean room manufacturing.

The acquisition of Dielectrics should add to earnings right away, expand our platform in important ways, and strengthen our medical business for years to come.

The Dielectrics team is highly skilled at designing and building the specialized equipment needed to manufacture and test their products. These unique capabilities will help us do more for our customers as we continue to expand our medical platform and grow the most profitable parts of our business.



Dielectrics makes sophisticated precision-medical products, many of which are used inside the body during complex surgical procedures. The addition of their capabilities will help bring UFP into new market areas with strong growth potential and high barriers to entry. Dielectrics and UFP both create highly engineered medical solutions that, once approved by the FDA, are very costly to switch out.

UFP and Dielectrics share many of the same customers. In fact, we already collaborate on some products, with UFP performing several steps of the manufacturing process, then shipping directly to Dielectrics to execute the rest. Working together in this way, we plan to create systematic solutions that will make us even more valuable to our medical customers.

Our strong culture helps us continue to attract and retain top employees. In 2017, we added experienced talent in areas such as operations, quality, HR, and engineering project management. We also realigned our sales teams and added dedicated market specialists to identify and capitalize on new opportunities.

We're focused on delivering more value to customers — building our team and enhancing our capabilities to meet more of their critical challenges.

With medical customers increasingly focused on cleanliness and quality systems, we expanded clean room capacity significantly in 2017. This included adding redundant clean room capabilities at various UFP locations to help reassure medical customers concerned about managing the risk of a single source of supply.

Our engineering expertise is a key differentiator and major competitive advantage. We love it when customers bring us their most complex product and packaging challenges. We apply our materials expertise and precision manufacturing to deliver solutions that continue to raise the bar for performance, protection and efficiency.

We completed the expansion of our Newburyport, Massachusetts facility, a key step in our program to optimize our national plant footprint. This creates more production space for the most technical components of our business with the best long-term growth prospects. We also added the AS9100 aerospace and defense quality certification in this location.

SELECTED FINANCIAL DATA

The following table summarizes our consolidated financial data for the periods presented. You should read the following financial information together with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those financial statements appearing elsewhere in this report. The selected statements of income data for the years ended December 31, 2017, 2016 and 2015, and the selected balance sheet data as of December 31, 2017 and 2016, are derived from our audited consolidated financial statements, which are included elsewhere in this report. The selected statements of income data for the years ended December 31, 2014 and 2013, and the selected balance sheet data at December 31, 2015, 2014 and 2013 are derived from our audited consolidated financial statements not included in this report.

SELECTED CONSOLIDATED FINANCIAL DATA

	Years Ended December 31 (in thousands, except per share data)				
Consolidated statement of operations data	**2017**	**2016**	**2015**	**2014**	**2013**
Net sales	$ 147,843	$ 146,132	$ 138,850	$ 139,307	$ 139,223
Gross profit	35,487	34,650	37,454	36,880	41,014
Operating income	11,693	12,237	11,714	11,561	17,398
Net income from consolidated operations	9,210	7,970	7,593	7,559	11,276
Diluted earnings per common share outstanding	1.26	1.10	1.05	1.05	1.59
Weighted average number of diluted common shares outstanding	7,337	7,275	7,206	7,175	7,105

	As of December 31 (in thousands)				
Consolidated balance sheet data	**2017**	**2016**	**2015**	**2014**	**2013**
Working capital	$ 65,131	$ 60,291	$ 52,620	$ 55,658	$ 56,398
Total assets	138,207	127,934	119,635	112,548	104,908
Current installments of long-term debt	-	856	1,011	993	976
Long-term debt, excluding current installments	-	-	859	1,873	2,867
Total liabilities	14,495	14,881	16,063	17,556	19,318
Total stockholders' equity	123,712	113,053	103,572	94,992	85,590

MARKET PRICE

From July 8, 1996, until April 18, 2001, the Company's common stock was listed on the NASDAQ National Market under the symbol "UFPT." Since April 19, 2001, the Company's common stock has been listed on the NASDAQ Capital Market. The following table sets forth the range of high and low quotations for the common stock as reported by NASDAQ for the quarterly periods from January 1, 2016 to December 31, 2017:

Fiscal Year Ended December 31, 2016	High	Low
First Quarter	$ 24.40	$ 20.50
Second Quarter	25.49	20.40
Third Quarter	27.35	21.70
Fourth Quarter	27.50	24.50

Fiscal Year Ended December 31, 2017	High	Low
First Quarter	$ 26.30	$ 22.95
Second Quarter	28.48	24.05
Third Quarter	29.00	25.88
Fourth Quarter	31.50	26.00

NUMBER OF STOCKHOLDERS

As of March 5, 2018, there were 68 holders of record of the Company's common stock.

Due to the fact that many of the shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of individual stockholders represented by these holders of record.

DIVIDENDS

The Company did not pay any dividends in 2016 or 2017. The Company presently intends to retain all of its earnings to provide funds for the operation of its business and strategic acquisitions, although it would consider paying cash dividends in the future. Any decision to pay dividends will be at the discretion of the Company's board of directors and will depend upon the Company's operating results, strategic plans, capital requirements, financial condition, provisions of the Company's borrowing arrangements, applicable law and other factors the Company's board of directors considers relevant.

ISSUER PURCHASES OF EQUITY SECURITIES

On June 16, 2015, the Company issued a press release announcing that its Board of Directors authorized the repurchase of up to $10.0 million of the Company's outstanding common stock. There was no share repurchase activity for the years ended December 31, 2017 and December 31, 2016. During the year ended December 31, 2015, the Company repurchased 29,559 shares of common stock at a cost of approximately $587,000. At December 31, 2017, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

UFP Technologies is an innovative designer and custom converter of foams, plastics, composites and natural fiber materials, providing solutions to customers primarily within the medical, automotive, consumer, electronics, industrial and aerospace and defense markets. The Company consists of a single operating and reportable segment.

The Company grew sales by 1.2% for its fiscal year ended December 31, 2017, largely due to sales increases to customers in the medical and consumer markets, which were partially offset by a large decrease in sales to customers in the automotive market. Improvements in both gross profit and selling, general and administrative expenses as a percentage of sales, plus a favorable income tax rate, helped generate a 14.5% increase in earnings per diluted share outstanding.

The Company's current strategy includes further organic growth and growth through strategic acquisitions.

Dielectrics Acquisition

As previously disclosed, on February 1, 2018, the Company acquired Dielectrics, Inc. pursuant to a stock purchase agreement and related agreements for an aggregate purchase price of $80 million in cash. In connection with its acquisition of Dielectrics, the Company expects to expense approximately $1.1 million in transaction costs in the first quarter of 2018.

RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, the percentage of revenues represented by the items as shown in the Company's Consolidated Statements of Income:

	2017	2016	2015
Net sales	100.0%	100.0%	100.0%
Cost of sales	76.0%	76.3%	73.0%
Gross profit	**24.0%**	**23.7%**	**27.0%**
Selling, general, and administrative expenses	16.1%	16.5%	17.3%
Restructuring costs	0.0%	0.3%	1.3%
Material overcharge settlement	-0.1%	-1.4%	0.0%
Operating income	**8.0%**	**8.3%**	**8.4%**
Total other income	-0.1%	-0.1%	-0.1%
Income before taxes	**8.1%**	**8.4%**	**8.5%**
Income tax expense	1.9%	2.9%	3.0%
Net income from consolidated operations	**6.2%**	**5.5%**	**5.5%**

2017 COMPARED TO 2016

Sales

Net sales increased 1.2% to $147.8 million for the year ended December 31, 2017 from net sales of $146.1 million in 2016, primarily due to increases in sales to customers in the medical, aerospace and defense and consumer markets of approximately 8.1%, 5.2% and 4.4%, respectively, partially offset by decreases in sales to customers in the automotive and industrial markets of approximately 15.1% and 7.4%, respectively. The increase in sales to customers in the medical market was largely due to general growth in demand for products of our medical customers. The increase in sales to customers in the aerospace and defense market was largely due to increased government spending on defense. The increase in sales to customers in the consumer market was largely due to increased demand for molded fiber protective packaging for consumer products. The decrease in sales to customers in the automotive market was largely due to the phase-out of the Company's automotive door panel program for Mercedes-Benz, which began in 2004, as well as reductions in demand on certain legacy programs. Sales for the Company's Mercedes Benz program were approximately $3.0 million in 2017 and are expected to be modest in 2018, as the program ends in the first quarter of 2018. Following the cessation of the Mercedes-Benz program, the Company plans to cease operations and vacate its Georgia facility when that lease expires in April of 2018.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") increased to 24.0% for the year ended December 31, 2017, from 23.7% in 2016. As a percentage of sales, material and direct labor costs collectively decreased approximately 1.2%, while overhead increased approximately 1.0%. The decrease in material and direct labor costs was primarily due to manufacturing efficiencies realized as a result of initiatives began in the second half of 2017. The increase in overhead was primarily due to higher indirect labor and benefits associated with hires made in the second half of 2017.

Selling, General, and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") decreased 1.1% to $23.8 million for the year ended December 31, 2017, from $24.1 million in 2016. As a percentage of sales, SG&A decreased to 16.1% in 2017 from 16.5% in 2016. The decrease in SG&A for the year ended December 31, 2017, is primarily due to general cost containment efforts. In connection with its acquisition of Dielectrics, the Company expects to expense approximately $1.1 million in transaction costs in the first quarter of 2018.

Restructuring Costs

On March 18, 2015, the Company committed to move forward with a plan to cease operations at its Raritan, New Jersey plant and consolidate operations into its Newburyport, Massachusetts facility and other UFP facilities. The Company's decision was in response to a continued decline in business at the Raritan facility and the purchase of the facility in Newburyport. The activities related to this consolidation are complete.

The Company also relocated all operations in its Haverhill, Massachusetts and Byfield, Massachusetts facilities and certain operations in its Georgetown, Massachusetts facility to Newburyport. The Haverhill and Byfield relocations were complete at December 31, 2015 and the partial Georgetown relocation was complete at June 30, 2017.

The Company has incurred approximately $2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount are approximately $180,000 relating to employee severance payments and relocation costs, approximately $1.6 million in moving expenses and expenses associated with vacating the Raritan, Haverhill and Byfield properties, and approximately $360,000 in lease termination costs. Total cash charges were approximately $2.0 million.

The Company recorded the following restructuring costs associated with the Massachusetts consolidations discussed above for the years ended December 31, 2017 and 2016 (in thousands):

Restructuring Costs	**2017**	**2016**
Relocation	63	420
Total restructuring costs	**63**	**420**

The 2017 and 2016 costs were reclassified in the Consolidated Statement of Income as "Restructuring Costs" from Cost of Sales.

Material Overcharge Settlement

The Company was a participant in a class action lawsuit against a number of polyurethane foam suppliers ("Defendants") that was settled during the second quarter of 2016. The suit was filed to recover damages and obtain injunctive relief for Defendants' alleged violations of the federal antitrust laws with respect to the fixing of prices of polyurethane foam sold from January 1, 1999 through August 2010. For the years ended December 31, 2017 and 2016, the Company recorded gains of approximately $0.1 million and $2.1 million, respectively. The settlement amounts are recorded as "Material overcharge settlement" in the operating income section of the Consolidated Statements of Income.

Interest Income and Expense

The Company had net interest income of approximately $166,000 for the year ended December 31, 2017, compared to net interest income of approximately $80,000 for the year ended December 31, 2016. The increase in net interest income is due primarily to an increase in interest earned on money market accounts and certificates of deposit and decreasing interest costs on the Company's term loans.

Income Taxes

The Company recorded income tax expense, as a percentage of income before income tax expense, of 22.3% for the year ended December 31, 2017 compared to 35.3% for the same period in 2016. The decrease in the effective tax rate was primarily due to a tax benefit of approximately $173,000 recorded as a result of the adoption of ASU No. 2016-09 on January 1, 2017 (See Note 1 to the consolidated financial statements) and a deferred tax benefit of approximately $1.5 million recorded as a result of a change in the statutory federal tax rate for 2018 and beyond.

2016 COMPARED TO 2015

Sales

Net sales increased 5.2% to $146.1 million for the year ended December 31, 2016, from net sales of $138.9 million in 2015, primarily due to increases in sales to customers in the medical and consumer markets of approximately 12.6% and 24.0%, respectively, partially offset by decreases in sales to customers in the aerospace and defense and electronics markets of approximately 20.2% and 12.4%, respectively. The increase in sales to customers in the medical market was largely due to a new five-year contract with one of the Company's larger customers in this market as well as an overall increase in demand from other medical customers. The increase in sales to customers in the consumer market was largely due to increased demand for molded fiber protective packaging for consumer products. The reduction in sales to customers in the aerospace and defense market was largely due to continued cuts in government spending. The decrease in sales to customers in the electronics market in 2016 was primarily due to a temporary spike in demand for packaging at one of our larger customers in 2015.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") decreased to 23.7% for the year ended December 31, 2016, from 27.0% in 2015. As a percentage of sales, material and direct labor costs collectively increased approximately 2.6%, while overhead increased approximately 0.4%. The increase in material and direct labor costs was primarily due to manufacturing inefficiencies of approximately $3.6 million resulting from recent plant consolidations and the resulting need to requalify parts with many of the Company's customers in the medical market.

Selling, General, and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") increased 0.4% to $24.1 million for the year ended December 31, 2016, from $24.0 million in 2015. The slight increase in SG&A for the year ended December 31, 2016, is primarily due to increased recruiting and other professional fees of approximately $500,000 partially offset by decreased compensation and benefit expenses of approximately $350,000.

Restructuring Costs

On March 18, 2015, the Company committed to move forward with a plan to cease operations at its Raritan, New Jersey plant and consolidate operations into its Newburyport, Massachusetts facility and other UFP facilities. The Company's decision was in response to a continued decline in business at the Raritan facility and the recent purchase of the facility in Newburyport. The activities related to this consolidation are complete.

The Company also relocated all operations in its Haverhill, Massachusetts and Byfield, Massachusetts facilities and certain operations in its Georgetown, Massachusetts facility to Newburyport. The Haverhill and Byfield relocations were complete at December 31, 2015 and the Georgetown relocation was complete at June 30, 2017.

The Company has incurred approximately $2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount are approximately $180,000 relating to employee severance payments and relocation costs, approximately $1.6 million in moving expenses and expenses associated with vacating the Raritan, Haverhill and Byfield properties, and approximately $360,000 in lease termination costs. Total cash charges were approximately $2.0 million.

On July 16, 2014, the Company committed to move forward with a plan to cease operations at its Costa Mesa, California plant and consolidate operations into its Rancho Dominguez, California facility and other UFP facilities. The Company's decision was in response to the December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. The California consolidation was complete at December 31, 2015.

The Company recorded the following restructuring costs associated with the consolidations discussed above for the years ended December 31, 2016 and 2015 (in thousands):

	2016		2015		
Restructuring Costs	**Massachusetts**	**Total**	**Massachusetts**	**California**	**Total**
Employee severance	$ -	$ -	$ 178	$ 18	$ 196
Relocation	420	420	1,138	66	1,204
Lease termination	-	-	356	-	356
Total restructuring costs	**$ 420**	**$ 420**	**$ 1,672**	**$ 84**	**$ 1,756**

The 2016 costs were reclassified in the Consolidated Statement of Income as "Restructuring Costs" from Cost of Sales. The 2015 costs were reclassified in the Consolidated Statement of Income as "Restructuring Costs" as follows: $1,669,000 from Cost of Sales, $36,000 from Selling, General and Administrative expenses and $51,000 from Gain on sales of property, plant and equipment.

Material Overcharge Settlement

The Company was a participant in a class action lawsuit against a number of polyurethane foam suppliers ("Defendants") that recently reached settlement. The suit was filed to recover damages and obtain injunctive relief for Defendants' alleged violations of the federal antitrust laws with respect to the fixing of prices of polyurethane foam sold from January 1, 1999 through August 2010. The Company recorded a gain of approximately $2.1 million during the year ended December 31, 2016. The settlement amount is recorded as "Material overcharge settlement" in the operating income section of the Consolidated Statements of Income.

Interest Income and Expense

The Company had net interest income of approximately $80,000 for the year ended December 31, 2016, compared to net interest income of approximately $27,000 for the year ended December 31, 2015. The increase in net interest income is due primarily to an increase in interest earned on money market accounts and certificates of deposit and decreasing interest costs on the Company's term loans.

Income Taxes

The Company recorded income tax expense as a percentage of income before income tax expense, of 35.3% for each of the years ended December 31, 2016 and 2015. The Company has deferred tax assets on its books associated with net operating losses generated in previous years. The Company has considered both positive and negative available evidence in its determination that the deferred tax assets are more likely than not to be realized, and has not recorded a tax valuation allowance at December 31, 2016. The Company will continue to assess whether the deferred tax assets will be realizable and, when appropriate, will record a valuation allowance against these assets. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

LIQUIDITY AND CAPITAL RESOURCES

The Company generally funds its operating expenses, capital requirements, and growth plan through internally generated cash and bank credit facilities.

Cash Flows

Net cash provided by operations for the year ended December 31, 2017 was approximately $17.5 million and was primarily a result of net income generated of approximately $9.2 million, depreciation and amortization of approximately $5.6 million, share-based compensation of approximately $1.1 million, a decrease in inventory of approximately $1.3 million primarily due to management initiatives, a decrease in prepaid expenses of approximately $0.4 million due to reduced equipment prepayments, and an increase in accounts payable and accrued expenses of approximately $1.1 million due to the timing of vendor payments in the ordinary course of business. These cash inflows and adjustments to income were partially offset by a decrease in deferred income taxes of approximately $1.0 million due primarily to the result of a change in the statutory federal tax rate for 2018 and beyond and an increase in refundable income taxes of approximately $0.2 million.

Net cash used in investing activities during the year ended December 31, 2017 was approximately $10.4 million of which approximately $4.7 million was the result of an expansion to our manufacturing facility in Newburyport, Massachusetts and approximately $5.7 million as the result of other additions of technology, manufacturing machinery, and equipment across the Company.

Net cash used in financing activities was approximately $0.5 million for the year ended December 31, 2017, representing cash used to service term debt of approximately $0.9 million and to pay statutory withholding for stock options exercised and restricted stock units vested of approximately $0.3 million, partially offset by net proceeds received upon stock option exercises of approximately $0.7 million.

Outstanding and Available Debt

As of December 31, 2017, the Company had an unsecured $40 million revolving credit facility with Bank of America, N.A. pursuant to the Credit Agreement dated December 2, 2013, as amended. The credit facility called for interest of LIBOR plus a margin that ranged from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin was dependent upon Company performance. Under the credit facility, the Company was subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Company's $40 million credit facility was to mature on November 30, 2018.

As of December 31, 2017, the Company had no borrowings outstanding under the credit facility. Included in the credit facility were approximately $0.6 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies. As of December 31, 2017, the Company was in compliance with all covenants under the credit facility.

Subsequent Events

Dielectrics Acquisition

As previously disclosed, on February 1, 2018, the Company acquired Dielectrics, Inc. pursuant to a stock purchase agreement and related agreements for an aggregate purchase price of $80 million in cash. In connection with its acquisition of Dielectrics, the Company expects to expense approximately $1.1 million in transaction costs in the first quarter of 2018. For more information, see Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ("the 10-K") Risk Factors—"We may pursue acquisitions or other strategic relationships that involve inherent risks, any of which may cause us to not realize anticipated benefits."

Amended and Restated Credit Agreement
On February 1, 2018, the Company, as the borrower, entered into an unsecured $70 million Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") with certain of the Company's subsidiaries (the "Subsidiary Guarantors") and Bank of America, N.A., in its capacity as the initial lender, Administrative Agent, Swingline Lender and L/C Issuer, and certain other lenders from time to time party thereto. The Amended and Restated Credit Agreement amends and restates the Company's prior credit agreement, originally dated as of December 2, 2013.

The credit facilities under the Amended and Restated Credit Agreement consist of a $20 million unsecured term loan to UFP and an unsecured revolving credit facility, under which the Company may borrow up to $50 million. The Amended and Restated Credit Facilities mature on February 1, 2023. The proceeds of the Amended and Restated Credit Agreement may be used for general corporate purposes, including funding the acquisition of Dielectrics, as well as certain other permitted acquisitions. Included in the Amended and Restated Credit Facilities is approximately $0.6 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies. The Company's obligations under the Amended and Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

The Amended and Restated Credit Facilities call for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from .25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the Amended and Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Amended and Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. As of the date of this report, the Company had approximately $56 million in borrowings outstanding under the Amended and Restated Credit Facilities, which were used as partial consideration for the Dielectrics acquisition.

In connection with the Amended and Restated Credit Agreement, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap modifies the Company's interest rate exposure by converting the term loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan.

Future Liquidity
The Company requires cash to pay its operating expenses, to purchase capital equipment, and to service its contractual obligations. The Company's principal sources of funds are its operations and its amended and restated credit facility. The Company generated cash of approximately $17.5 million in operations during the year ended December 31, 2017; however, the Company cannot guarantee that its operations will generate cash in future periods. The Company's longer-term liquidity is contingent upon future operating performance.

Throughout fiscal 2018, the Company plans to continue to add capacity to enhance operating efficiencies in its manufacturing plants. The Company may consider additional acquisitions of companies, technologies, or products that are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash expected to be generated from operations and funds expected to be available to it through any necessary equipment financings and additional bank borrowings, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through the next twelve months.

Stock Repurchase Program
The Company accounts for treasury stock under the cost method, using the first-in, first out flow assumption, and includes treasury stock as a component of stockholders' equity. On June 16, 2015, the Company announced that its Board of Directors authorized the repurchase of up to $10.0 million of the Company's outstanding common stock. Under the program, the Company is authorized to repurchase shares through Rule 10b5-1 plans, open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. The stock repurchase program will end upon the earlier of the date on which the plan is terminated by the Board or when all authorized repurchases are completed. The timing and amount of stock repurchases, if any, will be determined based upon our evaluation of market conditions and other factors. The stock repurchase program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the program. There were no share repurchases during the years ended December 31, 2017 and December 31, 2016. During the year ended December 31, 2015, the Company repurchased 29,559 shares of common stock at a cost of approximately $587,000. At December 31, 2017, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations at December 31, 2017 (in thousands):

	Payment Due By Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating leases	3,106	651	1,269	1,186	-
Supplemental retirement	50	25	25	-	-
Total	**$ 3,156**	**$ 676**	**$ 1,294**	**$ 1,186**	**$ -**

The Company requires cash to pay its operating expenses, to purchase capital equipment, and to service the obligations listed above. The Company's principal sources of funds are its operations and its revolving credit facility. Although the Company generated cash from operations in the year ended December 31, 2017, it cannot guarantee that its operations will generate cash in future periods. Subject to the Risk Factors set forth in Part I, Item 1A of the 10-K and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the end of this report, we believe that cash flow from operations will provide us with sufficient funds in order to fund our expected operations over the next twelve months.

The Company does not believe inflation has had a material impact on its results of operations in the last three years.

OFF-BALANCE-SHEET ARRANGEMENTS

In addition to operating leases, the Company's off-balance-sheet arrangements include standby letters of credit which are included in the Company's revolving credit facility. As of December 31, 2017, there was approximately $0.6 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, warranty obligations, restructuring charges, contingencies, and litigation. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances, including current and anticipated worldwide economic conditions, both in general and specifically in relation to the packaging and component product industries, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of the 10-K. The Company believes the following critical accounting policies necessitated that significant judgments and estimates be used in the preparation of its consolidated financial statements.

The Company has reviewed these policies with its Audit Committee.

- **Revenue Recognition** The Company recognizes revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of its obligation is complete, its price to the buyer is fixed or determinable, and the Company is reasonably assured of collection. Determination of these criteria, in some cases, requires management's judgment. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue for any reporting period could be adversely affected.

- **Goodwill** Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company consists of a single reporting unit. We last performed "step 1" of the goodwill impairment test as of September 30, 2014. We utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

    - The reporting unit's estimated financials and five-year projections of financial results, which were based on our strategic plans and long-range forecasts. Sales growth rates represent estimates based on current and forecasted sales mix and market conditions. The profit margins were projected based on historical margins, projected sales mix, current expense structure and anticipated expense modifications.
    - The projected terminal value which reflects the total present value of projected cash flows beyond the last period in the DCF. This value reflects a growth rate for the reporting unit, which is approximately the same growth rate of expected inflation into perpetuity.
    - The discount rate determined using a Weighted Average Cost of Capital method ("WACC"), which considered market and industry data as well as Company-specific risk factors.
    - Selection of guideline public companies which are similar to each other and to the Company.

    As of September 30, 2014, based on our calculations under the above noted approach, the fair value of the reporting unit exceeded its carrying value by approximately $69 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. If our actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

The Company's annual impairment testing date is December 31. The Company performed a qualitative assessment ("step 0") as of December 31, 2017, and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company is not required to proceed to a "step 1" impairment assessment. Factors considered included the 2014 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macroeconomic conditions, industry and market considerations, raw material costs and management stability.

- **Accounts Receivable** The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially uncollectable. Determining adequate reserves for accounts receivable requires management's judgment. Conditions impacting the realizability of the Company's receivables could cause actual asset write-offs to be materially different than the reserved balances as of December 31, 2017.

- **Inventories** Inventories include material, labor, and manufacturing overhead and are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

  The Company periodically reviews the realizability of its inventory for potential excess or obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2017.

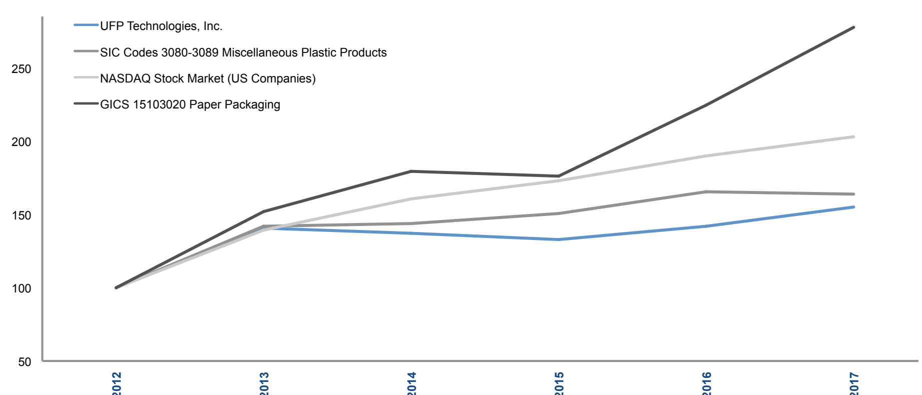
- **Recent Accounting Pronouncements** Refer to Note 1, "Summary of Significant Accounting Policies," in the accompanying notes to the consolidated financial statements for a discussion of recent accounting pronouncements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of the Company's market risk includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Market risk represents the risk of changes in value of a financial instrument caused by fluctuations in interest rates, foreign exchange rates, and equity prices. At December 31, 2017, the Company's cash and cash equivalents consisted of bank accounts in U.S. dollars, and their valuation would not be affected by market risk. Interest under the Company's credit facility with Bank of America, N.A. is based upon either the Prime rate or LIBOR and, therefore, future operations could be affected by interest rate changes. However, as of December 31, 2017, the Company had no borrowings outstanding under the revolving credit facility, and the Company believes the market risk associated with the facility is minimal.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
ASSUMES INITIAL INVESTMENT OF $100
DECEMBER 2017



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
of UFP Technologies, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of UFP Technologies, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedule (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 16, 2018 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Grant Thornton LLP

GRANT THORNTON LLP
We have served as the Company's auditor since 2005.
Boston, Massachusetts
March 16, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
of UFP Technologies, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of UFP Technologies, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended December 31, 2017, and our report dated March 16, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

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

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

Grant Thornton LLP

GRANT THORNTON LLP
Boston, Massachusetts
March 16, 2018

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	DECEMBER 31 2017	2016
Current assets:		
Cash and cash equivalents	$ 37,978	$ 31,359
Receivables, net	21,381	21,249
Inventories	12,863	14,151
Prepaid expenses	1,835	2,281
Refundable income taxes	1,017	807
Total current assets	**75,074**	**69,847**
Property, plant, and equipment	106,716	96,806
Less accumulated depreciation and amortization	(53,064)	(48,290)
Net property, plant, and equipment	53,652	48,516
Goodwill	7,322	7,322
Intangible assets, net	—	318
Non-qualified deferred compensation plan	2,015	1,778
Other assets	144	153
Total assets	**$ 138,207**	**$ 127,934**

LIABILITIES AND STOCKHOLDERS' EQUITY	2017	2016
Current liabilities:		
Accounts payable	$ 4,180	$ 4,002
Accrued expenses	5,763	4,698
Current installments of long-term debt	—	856
Total current liabilities	**9,943**	**9,556**
Deferred income taxes	2,440	3,459
Non-qualified deferred compensation plan	2,030	1,682
Other liabilities	82	184
Total liabilities	**14,495**	**14,881**
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value, 20,000,000 shares authorized; 7,309,909 and 7,280,350 shares issued and outstanding, respectively at December 31, 2017; 7,242,023 and 7,212,464 shares issued and outstanding, respectively at December 31, 2016	73	72
Additional paid-in capital	26,664	25,216
Retained earnings	97,562	88,352
Treasury stock at cost, 29,559 shares at December 31, 2017 and 2016 respectively	(587)	(587)
Total stockholders' equity	**123,712**	**113,053**
Total liabilities and stockholders' equity	**$ 138,207**	**$ 127,934**

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

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Years Ended December 31		
	2017	**2016**	**2015**
Net sales	$ 147,843	$ 146,132	$ 138,850
Cost of sales	112,356	111,482	101,396
Gross profit	**35,487**	**34,650**	**37,454**
Selling, general, and administrative expenses	23,845	24,105	24,008
Restructuring costs	63	420	1,756
Material overcharge settlement	(121)	(2,114)	—
Loss (gain) on sales of property, plant, and equipment	7	2	(24)
Operating Income	**11,693**	**12,237**	**11,714**
Other (income) expenses:			
Interest income	(216)	(149)	(114)
Interest expense	50	69	87
Total other (income) expense	(166)	(80)	(27)
Income before income tax provision	**11,859**	**12,317**	**11,741**
Income tax expense	2,649	4,347	4,148
Net income from consolidated operations	**$ 9,210**	**$ 7,970**	**$ 7,593**
Net income per common share outstanding:			
Basic	$ 1.27	$ 1.11	$ 1.07
Diluted	$ 1.26	$ 1.10	$ 1.05
Weighted average common shares outstanding:			
Basic	7,248	7,190	7,102
Diluted	7,337	7,275	7,206

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2017, 2016 and 2015

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
Balance at December 31, 2014	**7,069**	**$ 71**	**$ 22,132**	**$ 72,789**	**—**	**$ —**	**$ 94,992**
Share-based compensation	24	—	1,069	—	—	—	1,069
Exercise of stock options net of shares presented for exercise	77	1	357	—	—	—	358
Net share settlement of restricted stock units and stock option tax withholding	—	—	(209)	—	—	—	(209)
Excess tax benefits on share-based compensation	—	—	356	—	—	—	356
Repurchase of common stock	(30)	—	—	—	30	(587)	(587)
Net income	—	—	—	7,593	—	—	7,593
Balance at December 31, 2015	**7,140**	**$ 72**	**$ 23,705**	**$ 80,382**	**30**	**$ (587)**	**$ 103,572**
Share-based compensation	33	—	1,056	—	—	—	1,056
Exercise of stock options net of shares presented for exercise	48	—	529	—	—	—	529
Net share settlement of restricted stock units and stock option tax withholding	(9)	—	(219)	—	—	—	(219)
Excess tax benefits on share-based compensation	—	—	145	—	—	—	145
Net income	—	—	—	7,970	—	—	7,970
Balance at December 31, 2016	**7,212**	**$ 72**	**$ 25,216**	**$ 88,352**	**30**	**$ (587)**	**$ 113,053**
Share-based compensation	32	1	1,067	—	—	—	1,068
Exercise of stock options net of shares presented for exercise	47	1	676	—	—	—	677
Net share settlement of restricted stock units and stock option tax withholding	(11)	(1)	(295)	—	—	—	(296)
Net income	—	—	—	9,210	—	—	9,210
Balance at December 31, 2017	**7,280**	**$ 73**	**$ 26,664**	**$ 97,562**	**30**	**$ (587)**	**$ 123,712**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2017	2016	2015
Cash flows from operating activities:			
Net income from consolidated operations	$ 9,210	$ 7,970	$ 7,593
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,635	5,634	4,846
Loss on sales of property, plant, and equipment	7	2	27
Share-based compensation	1,068	1,056	1,069
Deferred income taxes	(1,019)	576	437
Excess tax benefits on share-based compensation	—	(145)	(356)
Changes in operating assets and liabilities:			
Receivables, net	(132)	(3,768)	(1,011)
Inventories	1,288	51	(1,309)
Prepaid expenses	446	(1,351)	(266)
Refundable income taxes	(210)	209	2,677
Accounts payable	93	(683)	(1,379)
Accrued expenses	1,065	(361)	(163)
Other liabilities	246	213	29
Other assets	(228)	(97)	325
Net cash provided by operating activities	**17,469**	**9,306**	**12,519**
Cash flows from investing activities:			
Additions to property, plant, and equipment	(10,382)	(7,206)	(15,742)
Proceeds from sale of property, plant, and equipment	7	14	53
Net cash used in investing activities	**(10,375)**	**(7,192)**	**(15,689)**
Cash flows from financing activities:			
Excess tax benefits on share-based compensation	—	145	356
Proceeds from the exercise of stock options, net of shares presented for exercise	677	529	358
Principal repayment of long-term debt	(856)	(1,014)	(996)
Payment of statutory withholding for stock options exercised and restricted stock units vested	(296)	(219)	(209)
Repurchases of common stock	—	—	(587)
Net cash used in financing activities	**(475)**	**(559)**	**(1,078)**
Net change in cash and cash equivalents	6,619	1,555	(4,248)
Cash and cash equivalents at beginning of year	31,359	29,804	34,052
Cash and cash equivalents at end of year	**$ 37,978**	**$ 31,359**	**$ 29,804**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

UFP Technologies, Inc. ("the Company") is an innovative designer and custom converter of foams, plastics, composites and natural fiber products principally serving the medical, automotive, consumer, electronics, industrial and aerospace and defense markets. The Company was incorporated in the State of Delaware in 1993.

(a) Principles of Consolidation

The consolidated financial statements include the accounts and results of operations of UFP Technologies, Inc., its wholly-owned subsidiaries, Moulded Fibre Technology, Inc., Simco Industries, Inc. and Stephenson & Lawyer, Inc. and its wholly-owned subsidiary, Patterson Properties Corporation. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has evaluated all subsequent events through the date of this filing.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including allowance for doubtful accounts and the net realizable value of inventory, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Fair Value Measurement

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurement or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

The Company has not elected fair value accounting for any financial instruments for which fair value accounting is optional.

(d) Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities are stated at carrying amounts that approximate fair value because of the short maturity of those instruments. The carrying amount of the Company's long-term debt approximates fair value as the interest rate on the debt approximates the Company's current incremental borrowing rate.

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents primarily consisted of money market accounts and certificates of deposit that are readily convertible into cash.

The Company maintains its cash in bank deposit accounts, money market funds, and certificates of deposit that at times exceed federally insured limits. The Company periodically reviews the financial stability of institutions holding its accounts, and does not believe it is exposed to any significant custodial credit risk on cash. The amounts contained within the Company's main operating account with Bank of America at December 31, 2017, exceed the federal depository insurance limit by approximately $24.1 million.

(f) Accounts Receivable

The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially uncollectable. Determining adequate reserves for accounts receivable requires management's judgment. Conditions impacting the realizability of the Company's receivables could cause actual asset write-offs to be materially different than the reserved balances as of December 31, 2017.

(g) Inventories

Inventories include material, labor, and manufacturing overhead and are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out ("FIFO") method.

The Company periodically reviews the realizability of its inventory for potential excess or obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2017.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets or the related lease term, if shorter.

Estimated useful lives of property, plant, and equipment are as follows:

Leasehold improvements	Shorter of estimated useful life or remaining lease term
Buildings and improvements	20-40 years
Machinery & Equipment	7-15 years
Furniture, fixtures, computers, & software	3-7 years

Property, plant, and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value.

(i) Goodwill

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company consists of a single reporting unit. We last performed "step 1" of the goodwill impairment test as of September 30, 2014. We utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

- The reporting unit's estimated financials and five-year projections of financial results, which were based on our strategic plans and long-range forecasts. Sales growth rates represent estimates based on current and forecasted sales mix and market conditions. The profit margins were projected based on historical margins, projected sales mix, current expense structure, and anticipated expense modifications.
- The projected terminal value, which reflects the total present value of projected cash flows beyond the last period in the DCF. This value reflects a growth rate for the reporting unit, which is approximately the same growth rate of expected inflation into perpetuity.
- The discount rate determined using a Weighted Average Cost of Capital method ("WACC"), which considered market and industry data as well as Company-specific risk factors.
- Selection of guideline public companies, which are similar to each other and to the Company.

As of September 30, 2014, based on our calculations under the above noted approach, the fair value of the reporting unit exceeded its carrying value by approximately $69 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. If our actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

The Company's annual impairment testing date is December 31. The Company performed a qualitative assessment ("step 0") as of December 31, 2017, and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company is not required to proceed to a "step 1" impairment assessment. Factors considered included the 2014 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

(j) Intangible Assets

Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from 5 to 14 years. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their carrying values may not be recoverable.

(k) Revenue Recognition

The Company recognizes revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of its obligation is complete, its price to the buyer is fixed or determinable, and the Company is reasonably assured of collection. Determination of these criteria, in some cases, requires management's judgment.

(l) Share-Based Compensation

When accounting for equity instruments exchanged for employee services, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

The Company issues share-based awards through several plans that are described in detail in Note 11. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Year Ended December 31		
	2017	2016	2015
Share-based compensation expense	$ 1,068	$ 1,056	$ 1,069

The compensation expense for stock options granted during the three-year period ended December 31, 2017, was determined as the fair value of the options using the Black Scholes valuation model. The assumptions are noted as follows:

	Year Ended December 31		
	2017	2016	2015
Expected volatility	27.4% to 29.1%	29.7%	31.5% to 32.3%
Expected dividends	None	None	None
Risk-free interest rate	1.56% to 1.84%	0.9%	1.0% to 1.2%
Exercise price	$27.05-$28.70	$22.02	$19.97-$22.36
Expected term	2.7 to 5.8 years	5.0 years	5.0 years
Weighted-average grant-date fair value	$ 5.59 to $ 8.51	$ 6.11	$ 6.04

The stock volatility for each grant is determined based on a review of the experience of the weighted average of historical daily price changes of the Company's common stock over the expected option term, and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The expected term is estimated based on historical option exercise activity.

The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was approximately $525,000, $318,000 and $312,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

(m) Deferred Rent

The Company accounts for escalating rental payments on a straight-line basis over the term of the lease.

(n) Shipping and Handling Costs

Costs incurred related to shipping and handling are included in cost of sales. Amounts charged to customers pertaining to these costs are included in net sales.

(o) Research and Development

On a routine basis, the Company incurs costs related to research and development activity. These costs are expensed as incurred. Approximately $1.1 million, $1.3 million and $1.3 million were expensed in the years ended December 31, 2017, 2016 and 2015, respectively.

(p) Income Taxes

The Company's income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax expense (benefit) results from the net change during the year in deferred tax assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company evaluates the need for a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. Should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense.

(q) Segments and Related Information
The Company follows the provisions of Accounting Standards Codification (ASC) 280, Segment Reporting, which establish standards for the way public business enterprises report information and operating segments in annual financial statements (see Note 17).

(r) Treasury Stock
The Company accounts for treasury stock under the cost method, using the first-in, first out flow assumption, and we include treasury stock as a component of stockholders' equity. The Company did not repurchase any shares of common stock during the years ended December 31, 2017 and 2016.

Recent Accounting Pronouncements
ASC 606, Revenue from Contracts with Customers, requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard replaces most existing revenue recognition guidance. The concept guiding this new model is that revenue recognition will depict transfer of control to the customer in an amount that reflects consideration to which an entity expects to be entitled. The core principles supporting this framework include (1) identifying the contract with a customer, (2) identifying separate performance obligations within the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations, and (5) recognizing revenue. This new framework will require entities to apply significantly more judgment. This increase in management judgment will require expanded disclosure on estimation methods, inputs, and assumptions for revenue recognition. The standard permits the use of either the full retrospective or modified retrospective transition methods.

The Company will adopt the standard in the first quarter of 2018 using the modified retrospective transition method. The Company has identified its primary revenue streams, completed a review of a representative sample of contracts with its customers and has evaluated the impact of this ASU on its revenue streams and accounting policies. Based on the procedures completed, for a significant portion of the business, the recognition of revenue under the updated standard will occur at a point in time, which is consistent with current practice. The Company has identified certain revenue streams for which the recognition of revenue will be deferred and recognized over time, which is a change from current practice. These revenue streams include certain tooling sales and certain long-term agreements with variable pricing. The Company has determined the required adjustments under the modified retrospective transition method as of January 1, 2018 will result in (in thousands) an increase in deferred revenue (primarily related to a contract liability included in accrued expenses for the payment received on tooling sales) of $574, an increase in property, plant and equipment for capitalized costs of tooling to fulfill the contracts of $479 and a decrease in retained earnings of $95.

Also, in preparation for adoption of the standard, the Company has implemented internal controls and accounting processes to enable the preparation of financial information and has reached conclusions on key accounting assessments related to the standard. The Company continues to assess the impact the adoption of this guidance will have on its disclosures and on the revenue streams of its recent acquisition, Dielectrics, Inc.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. The amendments in ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The Company is evaluating the impact of adopting this ASU on its consolidated financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards, forfeitures and classification on the statement of cash flows. The Company adopted this ASU on January 1, 2017. As the Company has not had a significant amount of forfeitures historically, under the provisions of this ASU the Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The impact of adopting this update to the Company's Consolidated Financial Statements will depend on market factors and the timing and intrinsic value of future share-based compensation award vests and exercises. Subsequent to adoption, the Company notes the potential for volatility in its effective tax rate as any windfall or shortfall tax benefits related to its share-based compensation plans will be recorded directly to income tax expense in the Condensed Consolidated Statement of Income.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment. This ASU applies to all reporting entities that have goodwill reported in their financial statements. The amendments in this ASU eliminate Step 2 from the goodwill impairment test reducing the cost and complexity of evaluating goodwill for impairment. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment date of its assets and liabilities as would be required in a business combination. Instead, under the amendments in this ASU, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. For public companies, the amendments in ASU 2017-04 are effective for the annual or any interim goodwill impairment tests for reporting periods beginning after December 15, 2019. This ASU should be applied prospectively and an entity is required to disclose the nature of and reason for the change in accounting principle upon transition. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Management does not expect ASU 2017-04 to have a material impact on the Company's financial statements and disclosures.

Revisions
Certain revisions have been made to the 2016 and 2015 Condensed Consolidated Statements of Cash Flows to conform to the current year presentation relating to a change in presentation of capital expenditures. This revision resulted in an increase of $87,000 and a

decrease of $579,000, for the years ended December 31, 2016 and 2015, respectively, in both the change in accounts payable and in additions to property, plant and equipment, net. These revisions had no impact on previously reported net income and are deemed immaterial to the previously issued financial statements.

(2) Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows (in thousands):

	Year Ended December 31		
	2017	**2016**	**2015**
Cash paid for:			
Interest	$ 47	$ 66	$ 86
Income taxes, net of refunds	$ 3,878	$ 3,562	$ 1,459
Non-cash investing and financial activities:			
Capital additions accrued but not yet paid	$ 85	$ 87	$ 579

During the years ended December 31, 2017, 2016 and 2015, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock ("cashless" exercises) totaling approximately $172,000, $166,000 and $36,000, respectively.

(3) Receivables

Receivables consist of the following (in thousands):

	December 31	
	2017	**2016**
Accounts receivable—trade	$ 22,033	$ 21,816
Less allowance for doubtful receivables	(652)	(567)
Receivables, net	**$ 21,381**	**$ 21,249**

Receivables are written off against these reserves in the period they are determined to be uncollectible, and payments subsequently received on previously written-off receivables are recorded as a reversal of the bad debt provision. The Company performs credit evaluations on its customers and obtains credit insurance on a large percentage of its accounts, but does not generally require collateral. The Company recorded a provision for doubtful accounts of approximately $116,000 and $126,000 for the years ended December 31, 2017 and 2016, respectively.

(4) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2017	**2016**
Raw materials	$ 6,898	$ 7,111
Work in process	1,207	1,354
Finished goods	4,758	5,686
Total Inventory	**$ 12,863**	**$ 14,151**

(5) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2017 and 2016 are as follows (in thousands):

	Patents	Non-Compete	Customer List	Total
Estimated useful life	14 years	5 years	5 years	
Gross amount at December 31, 2017	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2017	(429)	(512)	(2,046)	(2,987)
Net balance at December 31, 2017	**$ —**	**$ —**	**$ —**	**$ —**
Gross amount at December 31, 2016	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2016	(429)	(449)	(1,791)	(2,669)
Net balance at December 31, 2016	**$ —**	**$ 63**	**$ 255**	**$ 318**

Amortization expense related to intangible assets was approximately $318,000 for each of the years ended December 31, 2017, 2016 and 2015, respectively.

(6) Property, Plant, and Equipment

Property, plant, and equipment consist of the following (in thousands):

	December 31	
	2017	**2016**
Land and improvements	$ 3,191	$ 3,191
Buildings and improvements	28,939	28,241
Leasehold improvements	2,553	2,759
Machinery & Equipment	58,602	54,633
Furniture, fixtures, computers, & software	6,820	6,419
Construction in progress	6,611	1,563
	$ 106,716	**$ 96,806**

Depreciation and amortization expenses for the years ended December 31, 2017, 2016 and 2015, were approximately $5.3 million, $5.3 million and $4.5 million, respectively.

(7) Indebtedness

On December 2, 2013, the Company entered into an unsecured $40 million revolving credit facility with Bank of America, N.A. The credit facility called for interest of LIBOR plus a margin that ranged from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranged from 0.25% to zero. In both cases the applicable margin was dependent upon Company performance. Under the credit facility, the Company was subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The credit facility was amended effective December 31, 2014, to modify the definition of "consolidated fixed-charge coverage ratio." The Company's $40 million credit facility was to mature on November 30, 2018.

As of December 31, 2017, the Company had no borrowings outstanding under the credit facility. Included in the credit facility were approximately $0.6 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies. As of December 31, 2017, the Company was in compliance with all covenants under the credit facility.

On February 1, 2018, the Company amended and restated the credit facility (see Note 22).

Long-term debt consists of the following (in thousands):

	December 31	
	2017	**2016**
Equipment loans	$ —	$ 856
Total long-term debt	**$ —**	**856**
Current Installments	$ —	(856)
Long-term debt, excluding current installments	**$ —**	**$ —**

(8) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2017	**2016**
Compensation	$ 2,536	$ 2,144
Benefits/self-insurance reserve	334	180
Paid time off	990	990
Commissions payable	309	260
Other	1,594	1,124
	$ 5,763	**$ 4,698**

(9) Income Taxes

The Company's income tax provision for the years ended December 31, 2017, 2016 and 2015 consists of the following (in thousands):

	Years Ended December 31		
	2017	**2016**	**2015**
Current:			
Federal	$ 3,117	$ 3,120	$ 3,131
State	551	651	580
	3,668	**3,771**	**3,711**
Deferred:			
Federal	(1,091)	546	508
State	72	30	(71)
	(1,019)	**576**	**437**
Total income tax provision	**$ 2,649**	**$ 4,347**	**$ 4,148**

The approximate tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows (in thousands):

	December 31	
	2017	**2016**
Deferred tax assets:		
Reserves	$ 398	$ 531
Inventory capitalization	228	427
Compensation programs	394	578
Retirement liability	7	19
Equity-based compensation	158	257
Net operating loss carryforwards	—	40
Deferred rent	6	7
Intangible assets	274	340
Total deferred tax assets:	**$ 1,465**	**$ 2,199**
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	$ (3,305)	$ (4,767)
Goodwill	(600)	(891)
Total deferred tax liabilities	**$ (3,905)**	**$ (5,658)**
Net long-term deferred tax liabilities	**$ (2,440)**	**$ (3,459)**

The amounts recorded as deferred tax assets as of December 31, 2017 and 2016, represent the amount of tax benefits of existing deductible temporary differences or carryforwards that are more likely than not to be realized through the generation of sufficient future taxable income within the carryforward period. The Company has total deferred tax assets of $1.5 million at December 31, 2017, that it believes are more likely than not to be realized in the carryforward period. Management reviews the recoverability of deferred tax assets during each reporting period.

The actual tax provision for the years presented differs from the "expected" tax provision for those years, computed by applying the U.S. federal corporate rate of 34.0% to income before income tax expense as follows:

	Years Ended December 31		
	2017	**2016**	**2015**
Computed "expected" tax rate	34.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	3.5	3.7	2.3
Meals and entertainment	0.3	0.2	0.3
R&D credits	(0.6)	(0.6)	(0.8)
Domestic production deduction	(2.6)	(2.5)	(2.5)
Non-deductible ISO stock option expense	0.1	0.3	0.4

Unrecognized tax benefits	—	(0.1)	—
Excised tax benefits on equity awards	(1.4)	—	—
Impact on deferred taxes of new legislation	(11.1)	—	—
Other	0.1	0.3	1.6
Effective tax rate	**22.3%**	**35.3%**	**35.3%**

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the "2017 Tax Act"), resulting in significant modifications to existing law. Our financial statements for the year ended December 31, 2017, reflect certain effects of the 2017 Tax Act in the fourth quarter of 2017, the period in which the legislation was enacted, which includes a reduction in the corporate tax rate from 35% to 21%. The interpretations of many provisions of the 2017 Tax Act are still unclear. We cannot predict when or to what extent any U.S. federal tax laws, regulations, interpretations, or rulings clarifying the 2017 Tax Act will be issued or the impact of any such guidance on us. It is also unclear how many U.S. states, if any, will incorporate these federal law changes, or portions thereof, into their tax codes. Any subsequent changes to state tax laws may impact our financial condition. Consistent with Staff Accounting Bulletin ("SAB") No. 118 issued by the Securities and Exchange Commission ("SEC"), which provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the 2017 Tax Act, the Company provisionally recorded an income tax benefit of $1.5 million related to the 2017 Tax Act, including remeasurement of its deferred tax assets and liabilities, and executive compensation limitations under Internal Revenue Code Section 162(m), among others. The Internal Revenue Service is expected to issue additional guidance clarifying provisions of the Act. As additional guidance is issued, one or more of the provisional amounts may change. In accordance with SEC guidance, provisional amounts may be refined as a result of additional guidance from, and interpretations by, U.S. regulatory and standard-setting bodies, and changes in assumptions. In the subsequent period, provisional amounts will be adjusted for the effects, if any, of interpretative guidance issued after December 31, 2017, by the U.S. Department of the Treasury.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan which have been audited through 2004, income tax returns filed in Massachusetts which have been audited through 2007, income tax returns filed in Florida which have been audited through 2009, income tax returns filed in New Jersey which have been audited through 2012, and income tax returns in Colorado which have been audited through 2013. Federal and state tax returns for the years 2014 through 2017 remain open to examination by the IRS and various state jurisdictions.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits ("UTB") resulting from uncertain tax positions is as follows (in thousands):

	December 31	
	2017	**2016**
Gross UTB balance at beginning of fiscal year	$ 150	$ 162
Reductions for tax positions of prior years	—	(12)
Gross UTB balance at end of fiscal year	**$ 150**	**$ 150**

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2017 and 2016 is $150,000 and $150,000, respectively.

In addition, the total amount of accrued interest and penalties on uncertain tax positions at December 31, 2017 and 2016 is $153,000 and $153,000, respectively.

At December 31, 2017, all of the unrecognized tax benefits relate to tax returns of a specific state jurisdiction that are currently under examination. Accordingly, the Company expects a reduction of this amount in 2018, as the examination is expected to close within the next twelve months.

(10) Net Income Per Share

Basic income per share is based upon the weighted average common shares outstanding during each year. Diluted income per share is based upon the weighted average of common shares and dilutive common stock equivalent shares outstanding during each year. The weighted average number of shares used to compute both basic and diluted income per share consisted of the following (in thousands):

	Years Ended December 31		
	2017	**2016**	**2015**
Basic weighted average common shares outstanding during the year	7,248	7,190	7,102

Weighted average common equivalent shares due to stock options and restricted stock units	89	85	104
Diluted weighted average common shares outstanding during the year	**7,337**	**7,275**	**7,206**

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock options, when the average market price of the common stock is lower than the exercise price of the related options during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would have been antidilutive. For the years ended December 31, 2017, 2016 and 2015, the number of stock awards excluded from the computation was 27,336, 52,377 and 72,495, respectively.

(11) Stock Option and Equity Incentive Plans

Share-based compensation is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

The Company issues share-based awards through several plans that are described below. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Years Ended December 31		
Share-based compensation related to:	**2017**	**2016**	**2015**
Common stock grants	$ 505	$ 505	$ 513
Stock option grants	138	237	282
Restricted stock unit awards	425	314	274
Total share-based compensation	$ 1,068	$ 1,056	$ 1,069

Incentive Plan

In June 2003, the Company formally adopted the 2003 Incentive Plan (the "Plan"). The Plan was originally intended to benefit the Company by offering equity-based incentives to certain of the Company's executives and employees, thereby giving them a permanent stake in the growth and long-term success of the Company and encouraging the continuance of their involvement with the Company's businesses. The Plan was amended effective June 4, 2008, to permit certain performance-based cash awards to be made under the Plan. The Plan was further amended on June 8, 2011, to increase the maximum number of shares of common stock in the aggregate to be issued to 2,250,000. The amendment also added appropriate language so as to enable grants of stock-based awards under the Plan to continue to be eligible for exclusion from the $1,000,000 limitation on deductibility under Section 162(m) of the Internal Revenue Code (the "Code"). The Plan was further amended on March 7, 2013, to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options.

Two types of equity awards may be granted to participants under the Plan: restricted shares or other stock awards. Restricted shares are shares of common stock awarded subject to restrictions and to possible forfeiture upon the occurrence of specified events. Other stock awards are awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of common stock. Such awards may include Restricted Stock Unit Awards ("RSUs"), unrestricted or restricted stock, incentive and non-qualified stock options, performance shares, or stock appreciation rights. The Company determines the form, terms, and conditions, if any, of any awards made under the Plan.

Through December 31, 2017, 1,213,764 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 56,902 shares are being reserved for outstanding grants of RSUs and other share-based compensation that are subject to various performance and time-vesting contingencies. The Company has also granted awards in the form of stock options under this Plan. Through December 31, 2017, 185,000 options have been granted and 94,375 options are outstanding. At December 31, 2017, 893,615 shares or options are available for future issuance in the 2003 Incentive Plan.

Director Plan

Effective July 15, 1998, the Company adopted the 1998 Director Plan, which was amended and renamed, on June 3, 2009, the 2009 Non-Employee Director Stock Incentive Plan (the "Director Plan"). The Director Plan was amended on March 7, 2013, to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options. The Director Plan, as amended, provides for the issuance of stock options and other equity-based securities of up to 975,000 shares to non-employee members of the Company's board of directors. Through December 31, 2017, 338,146 options have been granted and 129,879 options are outstanding. For the year ended December 31, 2017, 3,882 shares of common stock were issued and 115,336 shares remained available to be issued under the Director Plan.

The following is a summary of stock option activity under all plans:

	Shares Under Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2016	**232,578**	**$ 16.53**	—	—
Granted	27,336	27.96	—	—
Exercised	(53,785)	27.09	—	—
Cancelled or expired	(3,750)	18.85	—	—
Outstanding December 31, 2017	**202,379**	**$ 18.23**	**3.46**	**$ 1,950**
Exercisable at December 31, 2017	**186,129**	**$ 17.43**	**3.42**	**$ 1,933**
Vested and expected to vest at December 31, 2017	**202,379**	**$ 18.23**	**3.46**	**$ 1,950**

During the years ended December 31, 2017, 2016 and 2015, the total intrinsic value of all options exercised (i.e., the difference between the market price and the price paid by the employees to exercise the options) was approximately $0.6 million, $0.7 million and $1.3 million, respectively, and the total amount of consideration received from the exercise of these options was approximately $0.8 million, $0.7 million and $0.4 million, respectively. At its discretion, the Company allows option holders to surrender previously owned common stock in lieu of paying the exercise price and withholding taxes. During the year ended December 31, 2017, 6,511 shares (6,511 for options and zero for taxes) were surrendered at an average market price of $26.45. During the year ended December 31, 2016, 6,514 shares (6,514 for options and zero for taxes) were surrendered at an average market price of $25.50. During the year ended December 31, 2015, 1,632 shares (1,632 for options and zero for taxes) were surrendered at an average market price of $21.97.

On February 21, 2017, the Company's Compensation Committee approved the award of $400,000 payable in shares of the Company's common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Equity Incentive Plan. The shares were issued on December 19, 2017.

On June 6, 2017, the Company issued 12,336 shares of unrestricted common stock to the non-employee members of the Company's Board of Directors as part of their annual retainer for serving on the Board.

The Company grants RSUs to its executive officers. The stock unit awards are subject to various time-based vesting requirements, and certain portions of these awards are subject to performance criteria of the Company. Compensation expense on these awards is recorded based on the fair value of the award at the date of grant, which is equal to the Company's closing stock price, and is charged, to expense ratably during the service period. No compensation expense is taken on awards that do not become vested, and the amount of compensation expense recorded is adjusted based on management's determination of the probability that these awards will become vested. The following table summarizes information about stock unit award activity during the year ended December 31, 2017:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2016	**46,558**	**$ 20.05**
Awarded	24,256	24.87
Shares vested	(13,419)	23.54
Outstanding at December 31, 2017	**57,395**	**$ 21.03**

At the Company's discretion, RSU holders are given the option to net-share settle to cover the required minimum withholding tax, and the remaining amount is converted into the equivalent number of common shares. During the year ended December 31, 2017, 4,377 shares were redeemed for this purpose at an average market price of $24.50. During the years ended December 31, 2016 and 2015, 3,389 and 3,405 shares were redeemed for this purpose at an average market price of $22.82 and $23.15, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2017, vest (in thousands):

	Options	Common Stock	Restricted Stock Units	Total
2018	$ 44	$ —	$ 370	$ 414
2019	28	—	274	302

2020	28	—	187	215
2021	—	—	21	21
Total	**$ 100**	**$ —**	**$ 852**	**$ 952**

Tax benefits totaling approximately $0, $145,000, and $356,000 were recognized as additional paid-in capital during the years ended December 31, 2017, 2016 and 2015, respectively, since the Company's tax deductions exceeded the share-based compensation charge recognized for stock options exercised and RSUs vested.

(12) Preferred Stock

On March 18, 2009, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock, par value $0.01 per share on March 20, 2009, to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share (the "Preferred Share"), of the Company, at a price of $25.00 per one one-thousandth of a Preferred Share subject to adjustment and the terms of the Rights Agreement. The rights expire on March 19, 2019.

(13) Supplemental Retirement Benefits

The Company provides discretionary supplemental retirement benefits for certain retired officers, which will provide an annual benefit to these individuals for various terms following separation from employment. The Company recorded an expense of approximately $3,000, $4,000 and $4,000 for the years ended December 31, 2017, 2016 and 2015, respectively. The present value of the supplemental retirement obligation has been calculated using a 3.5% discount rate and is included in other liabilities. Total projected future cash payments for the years ending December 31, 2018 and 2019 are approximately $25,000 for each year.

(14) Commitments and Contingencies

(a) ***Leases*** – The Company has operating leases for certain facilities that expire through 2022. Certain of the leases contain escalation clauses that require payments of additional rent as well as increases in related operating costs.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2017, are as follows (in thousands):

Years Ending December 31	Operating Leases
2018	652
2019	625
2020	644
2021	637
2022	549
Total minimum lease payments	**$ 3,107**

Rent expense amounted to approximately $0.9 million, $0.8 million and $1.2 million in 2017, 2016 and 2015, respectively.

(b) ***Legal*** – From time to time, the Company may be a party to various suits, claims and complaints arising in the ordinary course of business. In the opinion of management of the Company, these suits, claims and complaints should not result in final judgments or settlements that, in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

(15) Employee Benefits Plans

The Company maintains a profit sharing plan for eligible employees. Contributions to the Plan are made in the form of matching contributions to employee 401(k) deferrals, as well as discretionary profit sharing amounts determined by the Board of Directors to be funded by March 15 following each fiscal year. Contributions were approximately $770,000, $740,000 and $750,000 in 2017, 2016 and 2015, respectively.

The Company has a partially self-insured health insurance program that covers all eligible participating employees. The maximum liability is limited by a stop loss of $225,000 per insured person, along with an aggregate stop loss determined by the number of participants.

The Company has an Executive, Non-qualified "Excess" Plan ("the Plan"), which is a deferred compensation plan available to certain executives. The Plan permits participants to defer receipt of part of their current compensation to a later date as part of their personal retirement or financial planning. Participants have an unsecured contractual commitment from the Company to pay amounts due under the Plan. There is currently no security mechanism to ensure that the Company will pay these obligations in the future.

The compensation withheld from Plan participants, together with gains or losses determined by the participants' deferral elections is reflected as a deferred compensation obligation to participants, and is classified within other liabilities in the accompanying balance sheets. At December 31, 2017 and 2016, the balance of the deferred compensation liability totaled approximately $2.0 and $1.7 million, respectively. The related assets, which are held in the form of a Company-owned, variable life insurance policy that names the Company as the beneficiary, are reported within other assets in the accompanying balance sheets, and are accounted for based on the underlying cash surrender values of the policies, and totaled approximately $2.0 and $1.8 million as of December 31, 2017 and 2016, respectively.

(16) Fair Value of Financial Instruments

Financial instruments recorded at fair value in the consolidated balance sheets, or disclosed at fair value in the footnotes, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels defined by ASC 820, Fair Value Measurements and Disclosures, and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 – Valued based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valued based on either directly or indirectly observable prices for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 – Valued based on management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the mode.

The Company has no assets and liabilities that are measured at fair value on a recurring basis.

(17) Segment Data

The Company consists of a single operating and reportable segment.

Revenues from customers outside the United States are not material. No customer comprised more than 10% of the Company's consolidated revenues for the year ended December 31, 2017. A vast majority of the Company's assets are located in the United States.

The Company's custom products are primarily sold to customers within the Medical, Automotive, Consumer, Aerospace and Defense, Electronics and Industrial markets. Sales by market for the years ended December 31, 2017, 2016 and 2015 are as follows (in thousands):

Market	2017 Net Sales	%	2016 Net Sales	%	2015 Net Sales	%
Medical	$ 69,910	47.3%	$ 64,687	44.3%	$ 57,297	41.3%
Automotive	23,118	15.7%	27,217	18.6%	26,879	19.4%
Consumer	22,486	15.2%	21,541	14.7%	17,274	12.4%
Aerospace & Defense	11,536	7.8%	10,967	7.5%	13,154	9.5%
Electronics	10,842	7.3%	10,979	7.5%	13,218	9.5%
Industrial	9,951	6.7%	10,741	7.4%	11,028	7.9%
Net Sales	**$ 147,843**	**100.0%**	**$ 146,132**	**100.0%**	**$ 138,850**	**100.0%**

Certain amounts for the year ended December 31, 2016 were reclassified between markets to conform to the current year presentation.

(18) Quarterly Financial Information (unaudited)

Summarized quarterly financial data is as follows (in thousands, except per share data):

2017	Q1	Q2	Q3	Q4
Net sales	$ 37,053	$ 37,886	$ 35,684	$ 37,220
Gross profit	9,516	9,941	8,193	7,837
Net income	2,171	2,630	1,695	2,714
Basic net income per share	0.30	0.36	0.23	0.38
Diluted net income per share	0.30	0.36	0.23	0.37

2016	Q1	Q2	Q3	Q4
Net sales	$ 34,503	$ 37,902	$ 37,220	$ 36,507
Gross profit	7,727	10,295	8,452	8,176
Net income	1,075	2,735	2,669	1,491
Basic net income per share	0.15	0.38	0.37	0.21
Diluted net income per share	0.15	0.38	0.37	0.20

(19) Plant Consolidation

On March 18, 2015, the Company committed to move forward with a plan to cease operations at its Raritan, New Jersey plant and consolidate operations into its Newburyport, Massachusetts facility and other UFP facilities. The Company's decision was in response to a continued decline in business at the Raritan facility and the purchase of the facility in Newburyport. The activities related to this consolidation are complete.

The Company also relocated all operations in its Haverhill, Massachusetts and Byfield, Massachusetts facilities and certain operations in its Georgetown, Massachusetts facility to Newburyport. The Haverhill and Byfield relocations were complete at December 31, 2015 and the partial Georgetown relocation was complete at June 30, 2017.

The Company has incurred approximately $2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount are approximately $180,000 relating to employee severance payments and relocation costs, approximately $1.6 million in moving expenses and expenses associated with vacating the Raritan, Haverhill and Byfield properties, and approximately $360,000 in lease termination costs. Total cash charges were approximately $2.0 million.

On July 16, 2014, the Company committed to move forward with a plan to cease operations at its Costa Mesa, California plant and consolidate operations into its Rancho Dominguez, California facility and other UFP facilities. The Company's decision was in response to the December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. The California consolidation was complete at December 31, 2015.

The Company has recorded the following restructuring costs associated with the consolidations discussed above for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015		
Restructuring Costs	**Massachusetts**	**Massachusetts**	**Massachusetts**	**California**	**Total**
Employee severance	$ -	$ -	$ 178	$ 18	$ 196
Relocation	63	420	1,138	66	1,204
Lease termination	-	-	356	-	365
Total restructuring costs	**$ 63**	**$ 420**	**$ 1,672**	**$ 84**	**$ 1,756**

The 2017 and 2016 costs were reclassified in the Consolidated Statement of Income as "Restructuring Costs" from Cost of Sales. The 2015 costs were reclassified in the Consolidated Statement of Income as "Restructuring Costs" as follows: $1,669,000 from Cost of Sales, $36,000 from Selling, General and Administrative expenses and $51,000 from Gain on sales of property, plant and equipment.

(20) Related Party Transactions

Daniel Croteau, who has been a member of the Company's board of directors since December 16, 2015, was the Chief Executive Officer (through March 2017) of Vention Medical, Inc. ("Vention"), a customer of the Company. Sales to Vention for the three-months ended March 31, 2017 were approximately $148,000. As a result of the sale of Vention, Mr. Croteau's employment ended in March 2017 and sales to Vention are no longer considered related party transactions.

(21) Material Overcharge Settlement

The Company was a participant in a class action lawsuit against a number of polyurethane foam suppliers ("Defendants") that was settled during the second quarter of 2016. The suit was filed to recover damages and obtain injunctive relief for Defendants' alleged violations of the federal antitrust laws with respect to the fixing of prices of polyurethane foam sold from January 1, 1999 through August 2010. During the years ended December 31, 2017 and 2016, the Company received settlement amounts of approximately $0.1 million and $2.1 million, respectively. The settlement amounts for the years ended December 31, 2017 and 2016 are recorded as "Material overcharge settlement" in the operating income section of the Consolidated Statements of Income.

(22) Subsequent Events

Dielectrics Acquisition

As previously disclosed, on February 1, 2018, the Company acquired Dielectrics, Inc. pursuant to a stock purchase agreement and related agreements for an aggregate purchase price of $80 million in cash. In connection with its acquisition of Dielectrics, the Company expects to expense approximately $1.1 million in transaction costs in the first quarter of 2018.

Amended and Restated Credit Agreement

On February 1, 2018, the Company, as the borrower, entered into an unsecured $70 million Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") with certain of the Company's subsidiaries (the "Subsidiary Guarantors") and Bank of America, N.A., in its capacity as the initial lender, Administrative Agent, Swingline Lender and L/C Issuer, and certain other lenders from time to time party thereto. The Amended and Restated Credit Agreement amends and restates the Company's prior credit agreement, originally dated as of December 2, 2013.

The credit facilities under the Amended and Restated Credit Agreement consist of a $20 million unsecured term loan to UFP and an unsecured revolving credit facility, under which the Company may borrow up to $50 million. The Amended and Restated Credit Facilities mature on February 1, 2023. The proceeds of the Amended and Restated Credit Agreement may be used for general corporate purposes, including funding the acquisition of Dielectrics, as well as certain other permitted acquisitions. Included in the Amended and Restated Credit Facilities is approximately $0.6 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies. The Company's obligations under the Amended and Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

The Amended and Restated Credit Facilities call for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from .25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the Amended and Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Amended and Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. As of March 16, 2018, the Company had approximately $56 million in borrowings outstanding under the Amended and Restated Credit Facilities, which were used as partial consideration for the Dielectrics acquisition.

In connection with the Amended and Restated Credit Agreement, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap modifies the Company's interest rate exposure by converting the term loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan.

Special Note Regarding Forward-Looking Statements

Some of the statements contained in this Report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are subject to known and unknown risks, uncertainties, and other factors, which may cause our or our industry's actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about the Company's prospects, anticipated trends and potential advantages in the different markets in which the Company competes, including the medical, automotive, consumer, electronics, industrial, and aerospace and defense markets, statements regarding macroeconomic trends and their results on our business, statements regarding anticipated new customer and vendor contracts, anticipated advantages relating to the Company's decisions to consolidate its Midwest, California and Northeast facilities and the expected cost savings and efficiencies associated therewith, statements regarding the end of the Company's automotive door panel program with Mercedes-Benz, the closure of the Company's Georgia plant and the resulting impact to revenues, anticipated advantages and the timing associated with requalification of parts, anticipated advantages of maintaining fewer, larger plants, anticipated advantages to improvements and alterations at the Company's existing plants, expected improvements to the Company's cash flow, anticipated advantages the Company expects to realize from its investments and capital expenditures, including the development of and investments in its molded fiber product lines, expectations regarding the manufacturing capacity and efficiencies of the Company's new production equipment, statements about the Company's acquisition opportunities and strategies, statements about the Company's acquisition of Dielectrics and the integration of the Dielectrics business, the effect of the acquisition of Dielectrics on the Company's earnings, and the timing associated therewith, the Company's participation and growth in multiple markets, including the medical market, its business opportunities, the Company's growth potential and strategies for growth, anticipated revenues and the timing of such revenues, and any indication that the Company may be able to sustain or increase its sales or earnings or sales and earnings growth rates. Investors are cautioned that such forward-looking statements involve risks and uncertainties, including without limitation risks and uncertainties associated with the Company's acquisition and integration of Dielectrics, risks associated with the effect of the acquisition of Dielectrics on the Company's earnings, risks associated with plant closures and consolidations, including the closure of our Georgia plant, and expected efficiencies from consolidating manufacturing, risks associated with the Company's entry into and growth in certain markets, risks and uncertainties associated with the requalification of parts, the risk that the Company may not be able to finalize anticipated new and long-term customer and vendor contracts, risks associated with the implementation of new production equipment and requalification or recertification of transferred equipment in a timely, cost-efficient manner, risks that any benefits from such new equipment may be delayed or not fully realized, or that the Company may be unable to fully utilize its expected production capacity, and risks and uncertainties associated with the identification of suitable acquisition candidates and the successful, efficient execution of acquisition transactions, integration of any such acquisition candidates and the value of those acquisitions to our customers and shareholders. Accordingly, actual results may differ materially.

The forward-looking statements contained herein speak only of the Company's expectations as of the date of this Report. Except as otherwise required by law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions, or circumstances on which any such statement is based. We qualify all of our forward-looking statements by these cautionary statements and those set forth in our other filings with the Securities and Exchange Commission, including those set forth under Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. We caution you that these risks are not exhaustive. We operate in a continually changing business environment, and new risks emerge from time to time.

STOCKHOLDER INFORMATION

TRANSFER AGENT AND REGISTRAR
American Stock Transfer
and Trust Company, LLC
6201 15th Avenue, 3rd Floor
Brooklyn, NY 11219

ANNUAL MEETING
The annual meeting of stockholders will be held at 10:00 a.m., on June 6, 2018, at UFP Technologies, Inc., 100 Hale Street, Newburyport, MA 01950.

COMMON STOCK LISTING
UFP Technologies' common stock is traded on Nasdaq under the symbol UFPT.

STOCKHOLDER SERVICES
Stockholders whose shares are held in street names often experience delays in receiving company communications forwarded through brokerage firms or financial institutions. Any shareholder or other interested party who wishes to receive information directly should call or write the Company. Please specify regular or electronic mail:

UFP Technologies, Inc.
Attn: Shareholder Services
100 Hale Street
Newburyport, MA 01950 USA

phone: (978) 352-2200
e-mail: investorinfo@ufpt.com
web: www.ufpt.com

FORM 10-K REPORT
A copy of the Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Company, or on the Company's website at www.ufpt.com/investors/filings.html.

CORPORATE HEADQUARTERS
UFP Technologies, Inc.
100 Hale Street
Newburyport, MA 01950 USA
(978) 352-2200 phone

PLANT LOCATIONS
California, Colorado, Florida, Iowa, Massachusetts, Michigan, Texas

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS
Grant Thornton LLP
125 High Street, 21st Floor
Boston, MA 02110

CORPORATE COUNSELS
Lynch Fink & Labelle LLP
6 Beacon Street, Suite 415
Boston, MA 02108

Brown Rudnick LLP
1 Financial Center
Boston, MA 02111

ABOUT THIS REPORT
The objective of this report is to provide existing and prospective shareholders a tool to understand our financial results, what we do as a company, and where we are headed in the future. We aim to achieve these goals with clarity, simplicity, and efficiency. We welcome your comments and suggestions.

WORLD WIDE WEB
In the interest of providing timely, cost-effective information to shareholders, press releases, SEC filings, and other investor-oriented matters are available on the Company's website at www.ufpt.com/investors/filings.html.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

R. Jeffrey Bailly **do**
Chairman, CEO and President

Daniel C. Croteau **d**
Chief Executive Officer
Surgical Specialties Corporation

Cynthia L. Feldmann **d**
Retired Partner
KPMG LLP

Ronald J. Lataille **o**
Sr. Vice President, Treasurer,
Secretary and
Chief Financial Officer

Christopher P. Litterio, Esq. **o**
General Counsel &
Sr. Vice President
Human Resources

Marc D. Kozin **d**
Senior Advisor
LEK Consulting, LLC

Thomas Oberdorf **d**
President & CEO
SIRVA, Inc.

Robert W. Pierce, Jr. **d**
Chairman, CEO,
and Co-Owner
Pierce Aluminum Company, Inc.

Lucia Luce Quinn **d**
Chief People Officer
Forrester Research, Inc.

Mitchell C. Rock **o**
Sr. Vice President
Sales and Marketing

Daniel J. Shaw, Jr. **o**
Vice President
Research & Development

W. David Smith **o**
Sr. Vice President
Operations

d Directors **o Officers**

OPERATING PRINCIPLES

CUSTOMERS
We believe the primary purpose of our company is to serve our customers. We seek to "wow" our customers with responsiveness and great products.

ETHICS
We will conduct our business at all times and in all places with absolute integrity with regard to employees, customers, suppliers, community, and the environment.

EMPLOYEES
We are dedicated to providing a positive, challenging and rewarding work environment for all of our employees.

QUALITY
We are dedicated to continuously improving our quality of service, quality of communications, quality of relationships, and quality of commitments.

SIMPLIFICATION
We seek to simplify our business process through the constant re-examination of our methods and elimination of all non-value-added activities.

ENTREPRENEURSHIP
We strive to create an environment that encourages autonomous decision-making and a sense of ownership at all levels of the company.

PROFIT
Although profit is not the sole reason for our existence, it is the lifeblood that allows us to exist.

UFP TECHNOLOGIES

100 Hale Street, Newburyport, MA 01950
978 352 2200 | ufpt.com