INCREASING OUR VALUE TO CUSTOMERS

UFP TECHNOLOGIES

2018 ANNUAL REPORT

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UFP Technologies, Inc. (Nasdaq: UFPT) is an innovative designer and custom manufacturer of components, subassemblies, products and packaging primarily for the medical market.

Utilizing highly specialized foams, films and plastics, UFP converts raw materials through laminating, molding, radio frequency welding and fabricating techniques. The Company is diversified by also providing highly engineered solutions to customers in the aerospace & defense, automotive, consumer, electronics and industrial markets.

Learn more about us at www.ufpt.com.

CONTENTS

DEAR FELLOW SHAREHOLDER,

For UFP Technologies, 2018 was a strong year on all fronts. We increased revenues by 29%, operating income by 68% and earnings per share by 53%. Even more importantly, we made great progress in advancing our strategic initiatives, increasing our value to customers and positioning your Company for long-term success.

In this letter, I'll discuss some of the year's highlights and our customer-driven strategy for growth. Simply stated, our goal is to bring more value to our customers by solving more of their problems, providing more products and services, and constantly refining our capabilities to meet their evolving needs. It starts at the front end of their new product development, when we help them select the ideal design and materials to maximize performance and profitability. It continues through the manufacturing stage, where we often build our own custom equipment to ensure production quality and efficiency, and then through every step of the process until the product reaches its ultimate consumer. This level of engagement helps us to form closer customer and vendor connections, and deepen the relationships that are essential to our business.

DIELECTRICS ACQUISITION AN IMMEDIATE SUCCESS

This customer-driven strategy also extends to potential acquisitions. Our selection process is often guided by specific customer feedback about additional capabilities or geographic locations that would make us more valuable to them. Our largest-ever acquisition, completed in early 2018, is a great example. The integration of Dielectrics into the UFP family has gone very smoothly. As expected, they've proven to be an excellent strategic and cultural fit, and they brought many critical new skills to our organization. With their blue-chip customer base and high-margin book of business, they've also added substantially to earnings. With the help of Dielectrics, sales to the medical market in 2018 grew 57.4%.

Because we have many customers in common, and produce complementary solutions, we see many exciting possibilities to combine our offerings and meet even more market needs. As we work to realize all the potential synergies, our medical capabilities and pipeline of opportunities have never been stronger.

REACHING A MEDICAL MILESTONE

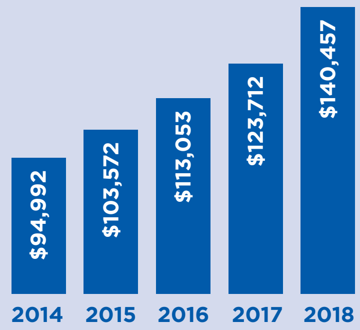
With the boost provided by Dielectrics, we've achieved an important milestone: Sales to the medical market now account for approximately 60% of our total revenues. In the coming years, we expect high-value, long-term medical programs to become an even bigger part of our business. So we will continue to expand our medical infrastructure with new cleanroom capacity, new equipment, new talent and more. The medical market is where our skills and the customers' needs are most closely aligned. These customers require the highest levels of engineering expertise, manufacturing excellence and exacting quality standards. That's precisely what we strive to deliver every day. They also like knowing we can manufacture in multiple plants and provide backup locations should the need arise.

OTHER TARGET MARKETS ALSO GROWING

Beyond medical, we remain strongly committed to our other five target markets. Here, too, the news in 2018 was generally very positive. For 2018, sales to

By increasing our value to customers, we're also improving our profitability, upgrading our book of business and positioning UFP for long-term success.

STOCKHOLDERS' EQUITY



the aerospace and defense market grew 14.0%. On a combined basis, sales to our consumer, electronics and industrial markets grew 9.1%. Our Molded Fiber group had a very good year as well. The sole laggard was the automotive market, where sales declined 13.4%. Our ability to serve diverse markets with a broad range of solutions is an integral part of our strategy. It helps us adapt quickly to changes in the economy and direct resources to where opportunities are greatest at any time.

IMPROVING OPERATING EFFICIENCY

Another major piece of our strategy: continuing to improve our operating efficiency. In 2018, we qualified the last of the new equipment from our plant consolidation program. It took several years to optimize our national footprint—closing or expanding locations, increasing automation, adding experienced operations talent and more.

Those efforts are now paying off with significant productivity gains and meaningful improvements to our operating results. For example, lower overhead expenses as a percentage of sales and improved manufacturing techniques in 2018 helped us increase gross margins by 1.4% to 25.4% of sales. Selling, general and administrative (SG&A) expenses as a percentage of sales also fell, allowing us to increase operating income from 7.9% to 10.3% of sales.

We will continue our efforts to drive down costs and ensure that we run every aspect of our business with maximum efficiency. At the same time, we will continue to improve our book of business by targeting higher-margin programs that best fit our skills. We're well known in the industry for creating innovative solutions to complex customer problems. A key objective is to extend the value of those innovations by applying what we've learned to new market segments and applications.

STRENGTHENING OUR BALANCE SHEET TO FINANCE FUTURE GROWTH

Thanks to our strong cash flow, we've been able to pay down more than $30 million of the $56 million we borrowed to purchase Dielectrics. With that integration largely complete, we now have the bandwidth and resources to take on new acquisitions. We have multiple candidates in mind and are working through our process to make sure any acquisitions will increase our value to customers and advance our overall strategy.

As we move ahead, we will continue to build on our great progress in 2018. For all the reasons described in this letter, I remain very bullish about the long-term prospects of your Company. I thank all of our talented associates who work so hard to drive our business forward, and I thank you for your support.

Sincerely,

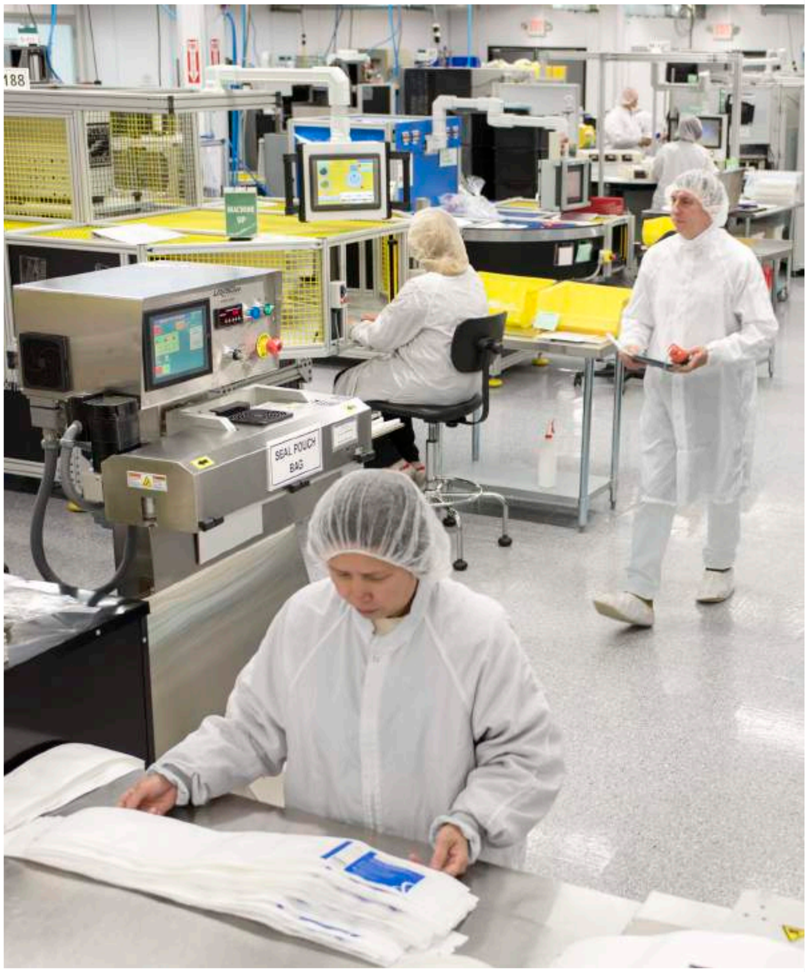
R. Jeffrey Bailly

R. Jeffrey Bailly
Chairman and CEO

ADVANCING MEDICAL CAPABILITIES

As high-margin medical programs become a bigger part of our business, we continue to expand our offerings and develop more integrated solutions.

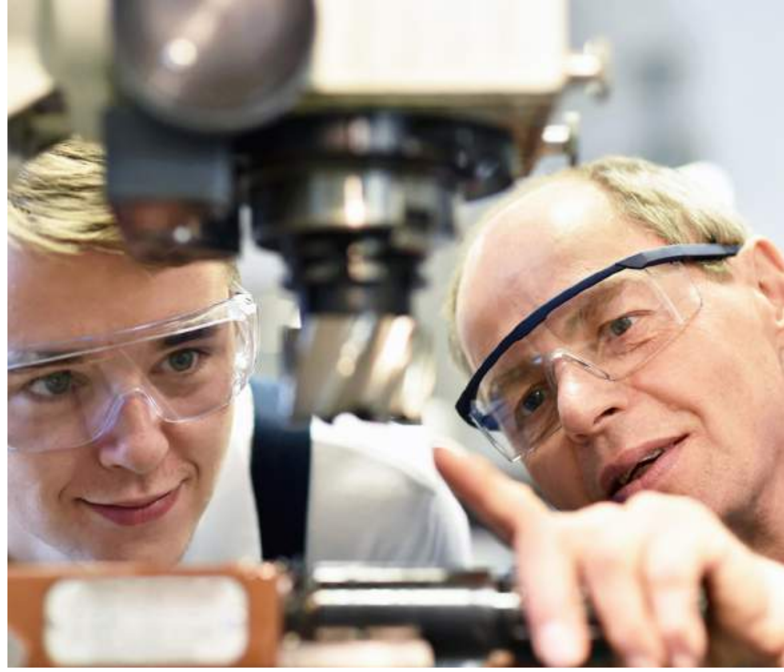
We will continue to build our medical sales by focusing on high-value, long-term programs that require absolute quality and precision. To achieve this objective, we're expanding our medical platform and targeting new product categories where our skills and market needs are the best fit.



The addition of Dielectrics to our already robust medical business has greatly enhanced our capabilities—and our value to both current and prospective customers. A combined UFP-Dielectrics go-to-market team is working to leverage our collective strengths and create solutions that integrate the best innovations of both organizations.

Among large medical customers, our reputation for innovation and reliability grows stronger with each passing year. In an industry that accounts for a large share of the overall U.S. economy, the opportunities for continued growth are substantial.

We continue to deepen our partnerships through long-term contracts and greater connectivity with customers and vendors. For example, in 2018 we finalized a three-way agreement with our largest customer and largest vendor that will extend our highest-volume medical program through 2025 and bring an estimated $70 million in revenue.



Through our vendor exclusivity agreements, we give our customers access to the leading-edge materials and technologies they need. These agreements also help protect our product innovations and boost the long-term value of our solutions.

As we expand our capabilities and grow more connected to customers, we're well positioned to address even more of their product and packaging challenges. Everything we do is about becoming a more valuable partner to them. That is one strategic tenet that will never change.

STRENGTHENING CUSTOMER CONNECTIONS

Long-term agreements with customers and vendors help lock us in to the kind of high-value programs that best fit our skills.

INNOVATING PRODUCTS & PROCESSES

As we add new capabilities and drive down costs, we can solve more of our customers' problems throughout their product life cycles.

By constantly improving the efficiency of our processes, we can keep our pricing competitive while still maintaining healthy margins. As we continue to drive down manufacturing costs, we can help customers in more ways and extend those relationships into promising new areas.

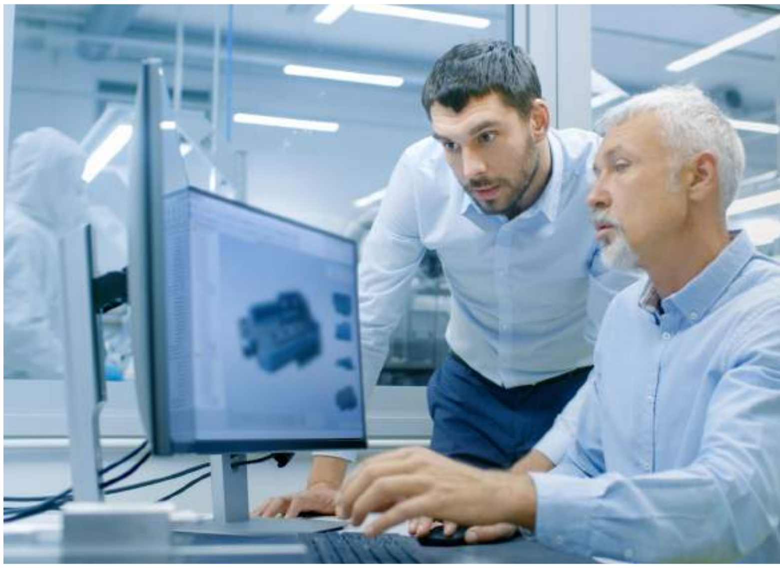
We thrive on creating new solutions and improving existing ones. Our ability to innovate means we can take on many of our customers' most difficult challenges and apply the knowledge gained from one successful program to new market opportunities.

BUILDING OUR TEAM

With the Dielectrics acquisition and some key personnel moves, our talent is deeper than ever.

When we acquired Dielectrics, we brought some truly outstanding talent into the UFP family. The Dielectrics team brings expertise in many product areas that are new to UFP. By combining the strengths of both organizations, we've created a technical team that, together, can solve many more problems than we could apart.

We also made several strategic hires in 2018 to bolster our operations group and help us improve efficiency and reduce costs. In addition, we continue to build our bench of extraordinary engineers. Their ability to create effective solutions to tough customer challenges remains our most powerful competitive advantage.



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, 2018, 2017 and 2016, and the selected balance sheet data as of December 31, 2018 and 2017, 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, 2015 and 2014, and the selected balance sheet data at December 31, 2016, 2015 and 2014 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	**2018**	**2017**	**2016**	**2015**	**2014**
Net sales	$ 190,455	$ 147,843	$ 146,132	$ 138,850	$ 139,307
Gross profit	$ 48,308	$ 35,487	$ 34,650	$ 37,454	$ 36,880
Operating income	$ 19,612	$ 11,693	$ 12,237	$ 11,714	$ 11,561
Net income from consolidated operations	$ 14,311	$ 9,210	$ 7,970	$ 7,593	$ 7,559
Diluted earnings per common share	$ 1.93	$ 1.26	$ 1.10	$ 1.05	$ 1.05
Weighted average number of diluted common shares outstanding	7,430	7,337	7,275	7,206	7,175

	As of December 31 (in thousands)				
Consolidated balance sheet data	**2018**	**2017**	**2016**	**2015**	**2014**
Working capital	$ 34,968	$ 65,131	$ 60,291	$ 52,620	$ 55,658
Total assets	$ 189,598	$ 138,207	$ 127,934	$ 119,635	$ 112,548
Current installments of long-term debt	$ 2,857	$ -	$ 856	$ 1,011	$ 993
Long-term debt, excluding current installments	$ 22,286	$ -	$ -	$ 859	$ 1,873
Total liabilities	$ 49,141	$ 14,495	$ 14,881	$ 16,063	$ 17,556
Total stockholders' equity	$ 140,457	$ 123,712	$ 113,053	$ 103,572	$ 94,992

MARKET PRICE

The Company was formed on July 9, 1963. 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, 2017, to December 31, 2018:

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

Fiscal Year Ended December 31, 2018	High	Low
First Quarter	$ 31.30	$ 26.05
Second Quarter	34.00	29.00
Third Quarter	37.25	30.58
Fourth Quarter	39.98	28.25

NUMBER OF STOCKHOLDERS

As of March 5, 2019, there were 63 holders of record of the Company's common stock.

Since 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 2018 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, 2018, 2017 and 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, 2018, 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

The Company is an innovative designer and custom manufacturer of components, subassemblies, products and packaging utilizing highly specialized foams, films and plastics primarily for the medical market. The Company manufactures its products by converting raw materials using laminating, molding, radio frequency and impulse welding and fabricating manufacturing techniques. The Company is diversified by also providing highly engineered products and components to customers in the aerospace and defense, automotive, consumer, electronics and industrial markets. The Company consists of a single operating and reportable segment. 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 $77 million net of Dielectrics' cash.

Sales for the Company for the year ended December 31, 2018, grew 28.8% to $190.5 million from $147.8 million for the year ended December 31, 2017, largely due to sales of approximately $36.2 million from Dielectrics. Dielectrics contributed significantly to earnings. The Company absorbed $1.1 million in transaction costs during the year ended December 31, 2018, approximately $760,000 in losses associated with the closure of its manufacturing plant in Georgia and an increase of approximately $700,000 in health care costs. Despite these costs, for the year ended December 31, 2018, the Company generated increases of 67.7% and 52.6% in operating income and net income, respectively.

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

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:

	2018	**2017**	**2016**
Net sales	100.0%	100.0%	100.0%
Cost of sales	74.6%	76.0%	76.3%
Gross profit	**25.4%**	**24.0%**	**23.7%**
Selling, general and administrative expenses	14.6%	16.1%	16.5%
Acquisition costs	0.6%	0.0%	0.0%
Restructuring costs	0.0%	0.0%	0.3%
Material overcharge settlement	-0.1%	-0.1%	-1.4%
Operating income	**10.3%**	**8.0%**	**8.3%**
Total other expense (income)	0.7%	-0.1%	-0.1%
Income before taxes	**9.6%**	**8.1%**	**8.4%**
Income tax expense	2.1%	1.9%	2.9%
Net income from consolidated operations	**7.5%**	**6.2%**	**5.5%**

2018 COMPARED TO 2017

Sales

Net sales increased 28.8% to $190.5 million for the year ended December 31, 2018, from net sales of $147.8 million in 2017. The increase in sales was primarily due to Dielectric's sales of approximately $36.2 million which were all in the medical market. On a market basis, sales to customers in the medical, aerospace and defense and consumer markets grew 57.3%, 14.0% and 17.2%, respectively, while sales to customers in the automotive market declined 13.4%. The increase in sales to customers in the medical market was primarily due to sales by Dielectrics as well as a 5.8% increase in demand from the Company's legacy medical customers. The increase in sales to customers in the aerospace and defense market was largely due to a general uptick in government contract-based orders. The increase in sales to customers in the consumer market was primarily due to sales of molded fiber protective packaging to a new customer. The decline in sales to customers in the automotive market was primarily due to the phase-out of the automotive door panel program for Mercedes-Benz.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") increased to 25.4% for the year ended December 31, 2018, from 24.0% in 2017. As a percentage of sales, material and direct labor costs collectively decreased approximately 0.6%, while overhead decreased approximately 0.8%. The decrease in material and direct labor costs as a percentage of sales was primarily due to increased manufacturing efficiencies resulting from continuous improvement initiatives as well as strategic price increases. The decrease in overhead was primarily due to the increase in sales on fixed overhead costs partially offset by the impact on overhead of rising health care costs.

Selling, General and Administrative Expenses

Selling, General and Administrative Expenses ("SG&A") increased approximately 16.4% to $27.8 million for the year ended December 31, 2018, from $23.8 million in 2017. As a percentage of sales, SG&A decreased to 14.6% in 2018 from 16.1% in 2017. The increase in SG&A for the year ended December 31, 2018 is due to approximately $2.6 million in SG&A expenses from Dielectrics as well as higher health care costs. The decrease in SG&A as a percentage of sales is primarily due to lower SG&A as a percentage of sales at Dielectrics as well as specific initiatives to reduce costs.

Acquisition Costs

The Company incurred approximately $1.1 million in costs associated with the Dielectrics acquisition which were charged to expense for the year ended December 31, 2018. These costs were primarily for investment banking and legal fees and are reflected on the face of the income statement.

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 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 each of the years ended December 31, 2018 and 2017, the Company recorded gains of approximately $0.1 million. 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 expense of approximately $1.3 million and net interest income of approximately $0.2 million for the years ended December 31, 2018 and 2017, respectively. The increase in net interest expense is primarily due to interest paid on the debt incurred to finance the Dielectrics acquisition.

Income Taxes

The Company recorded income tax expense, as a percentage of income before income tax expense, of 22.2% for the year ended December 31, 2018, compared to 22.3% for the same period in 2017.

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.

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 which 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.

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 incurred approximately $2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount is 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, 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.

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, 2018, was approximately $21.3 million and was primarily a result of net income generated of approximately $14.3 million, depreciation and amortization of approximately $7.8 million, share-based compensation of approximately $1.2 million, an increase in deferred taxes of approximately $1.9 million and an increase in accounts payable and accrued expenses of approximately $2.6 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 an increase in accounts receivable of approximately $2.6 million primarily due to increased sales in the last two months of the fourth quarter of 2018 over the same period of 2017, an increase in inventory of approximately $2.3 million primarily due to the building of inventory to support the higher sales, an increase in prepaid expenses and other assets of approximately $0.3 million and an increase in refundable income taxes of approximately $1.3 million.

Net cash used in investing activities during the year ended December 31, 2018 was approximately $82.3 million and was primarily the result of the acquisition of Dielectrics and additions of manufacturing machinery and equipment and various building improvements across the Company.

Net cash provided by financing activities was approximately $26.3 million for the year ended December 31, 2018, representing borrowings under our credit facility to fund the Dielectrics acquisition of $56.0 million and net proceeds received upon stock options exercises of approximately $1.3 million, partially offset by repayments on our credit facility and term loan of approximately $30.9 million, and payments of statutory withholding for stock options exercised and restricted stock units vested of approximately $0.1 million.

Outstanding and Available Debt

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.

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.

The credit facilities under the Amended and Restated Credit Agreement (the "Amended and Restated Credit Facilities") consist of a $20 million unsecured term loan to the Company 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. 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.

Included in the Amended and Restated Credit Facilities is approximately $0.6 million in standby letters of credit as a financial guarantee on worker's compensation insurance policies. As of December 31, 2018, the Company was in compliance with all covenants under the credit facility.

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

		December 31, 2018
Revolving credit facility	$	8,000
Term loan		17,143
Total long-term debt		25,143
Current portion		(2,857)
Long-term debt, excluding current position	**$**	**22,286**

Future Liquidity

The Company requires cash to pay its operating expenses, purchase capital equipment and 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 $21.3 million in operations during the year ended December 31, 2018; 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 2019, 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 12 months.

The Company may also require additional capital in the future to fund capital expenditures, acquisitions or other investments. These capital requirements could be substantial. The Company anticipates that any future expansion of its business will be financed through existing resources, cash flow from operations, the Company's revolving credit facility or other new financing. The Company cannot guarantee that it will be able to meet existing financial covenants or obtain other new financing on favorable terms, if at all. The Company's liquidity will be impacted to the extent additional stock repurchases are made under the Company's stock repurchase program.

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, 2018, 2017 and 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, 2018, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations at December 31, 2018:

	Payment Due By Period (in thousands) (1)				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Term loan (2)	$ 18,910	$ 3,453	$ 6,589	$ 8,868	$ -
Revolving credit facility (3)	9,151	258	564	8,329	-
Operating leases (4)	4,195	1,051	2,133	1,011	-
Supplemental retirement (5)	25	25	-	-	-
Total	**$ 32,281**	**$ 4,787**	**$ 9,286**	**$ 18,208**	**$ -**

(1) The amounts set forth in the "Less than 1 Year" column represent amounts to be paid in 2019, the "1-3 Years" column represents amounts to be paid in 2020 and 2021, the "3-5 Years" column represent amounts to be paid in 2022 and 2023 and the "More than 5 Years" column represents amounts to be paid after 2023.

(2) Represents scheduled payments of principal and interest on the term loan, including the interest effects of the related interest rate swap agreement. See Note 8 to the accompanying Consolidated Financial Statements.

(3) Represents scheduled payments of principal and interest on the revolving credit facility. See Note 8 to the accompanying Consolidated Financial Statements.

(4) Represents scheduled payments for non-cancelable building lease commitments. See Note 15 to the accompanying Consolidated Financial Statements.

(5) Represents scheduled payments for supplemental benefits. See Note 14 to the accompanying Consolidated Financial Statements.

The Company requires cash to pay its operating expenses, purchase capital equipment and 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, 2018, 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 this Report and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset 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 12 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, 2018, there was approximately $600,000 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, 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 this Report. 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 when a customer obtains control of a promised good or service. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for promised goods or services. The Company recognizes revenue in accordance with the core principles of Accounting Standards Codification ("ASC") 606, which 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. The Company recognizes all but an immaterial portion of its product sales upon shipment. The Company recognizes revenue from the sale of tooling and machinery primarily upon customer acceptance, with the exception of certain tooling where control does not transfer to the customer, which results in revenue being recognized over the estimated time for which parts are produced with the use of each respective tool. The Company recognizes revenue from engineering services as the services are performed. Although only applicable to an insignificant number of transactions, the Company has elected to exclude sales taxes from the transaction price. The Company has elected to account for shipping and handling activities for which the Company is responsible under the terms and conditions of the sale not as performance obligations but rather as fulfillment costs. These activities are required to fulfill the Company's promise to transfer the good and are expensed when revenue is recognized.

- **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. In testing goodwill for impairment at December 31, 2018, the Company primarily 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 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 in size and market capitalization to each other and to the Company.

  As of December 31, 2018, based on our calculations under the above-noted approach, the fair value of the reporting unit significantly exceeded the carrying value of the reporting unit. 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.

- **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, 2018.

- **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, 2018.

- **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, 2018, 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. calls 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. Therefore, future operations could be affected by interest rate changes. As of December 31, 2018, the applicable interest rate was approximately 3.52%. The Company uses interest-rate-related derivative instruments to manage its exposure related to changes in interest rates. In connection with this credit facility, 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
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, 2018 and 2017, the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule under Item 15(a) (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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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 15, 2019 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 15, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
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, 2018, 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, 2018, 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, 2018, and our report dated March 15, 2019 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 ("Management's Report"). 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.

Our audit of, and opinion on, the Company's internal control over financial reporting does not include the internal control over financial reporting of Dielectrics Inc., a wholly-owned subsidiary, whose financial statements reflect total assets and revenues constituting 43.3% and 19.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018. As indicated in Management's Report, Dielectrics Inc. was acquired during 2018. Management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Dielectrics Inc.

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 15, 2019

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31	
ASSETS	**2018**	**2017**
Current assets:		
Cash and cash equivalents	$ 3,238	$ 37,978
Receivables, net	28,321	21,381
Inventories	19,576	12,863
Prepaid expenses	2,206	1,835
Refundable income taxes	2,285	1,017
Total current assets	**55,626**	**75,074**
Property, plant and equipment	111,779	106,716
Less accumulated depreciation and amortization	(54,112)	(53,064)
Net property, plant and equipment	57,667	53,652
Goodwill	51,838	7,322
Intangible assets, net	22,232	—
Non-qualified deferred compensation plan	2,034	2,015
Other assets	201	144
Total assets	**$ 189,598**	**$ 138,207**

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,836	$ 4,180
Accrued expenses	8,458	5,466
Deferred revenue	2,507	297
Current installments of long-term debt	2,857	—
Total current liabilities	**20,658**	**9,943**
Long-term debt, excluding current installments	22,286	—
Deferred income taxes	4,129	2,440
Non-qualified deferred compensation plan	2,044	2,030
Other liabilities	24	82
Total liabilities	**49,141**	**14,495**
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value, 20,000,000 shares authorized; 7,415,002 and 7,385,443 shares issued and outstanding, respectively at December 31, 2018; 7,309,909 and 7,280,350 shares issued and outstanding, respectively at December 31, 2017	74	73
Additional paid-in capital	29,168	26,664
Retained earnings	111,802	97,562
Treasury stock at cost, 29,559 shares at both December 31, 2018 and 2017	(587)	(587)
Total stockholders' equity	**140,457**	**123,712**
Total liabilities and stockholders' equity	**$ 189,598**	**$ 138,207**

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		
	2018	**2017**	**2016**
Net sales	$ 190,455	$ 147,843	$ 146,132
Cost of sales	142,147	112,356	111,482
Gross profit	**48,308**	**35,487**	**34,650**
Selling, general and administrative expenses	27,758	23,845	24,105
Acquisition costs	1,089	—	—
Restructuring costs	—	63	420
Material overcharge settlement	(104)	(121)	(2,114)
(Gain) Loss on sales of property, plant and equipment	(47)	7	2
Operating Income	**19,612**	**11,693**	**12,237**
Interest income	47	216	149
Interest expense	(1,320)	(50)	(69)
Other income	64	—	—
Income before income tax provision	**18,403**	**11,859**	**12,317**
Income tax expense	4,092	2,649	4,347
Net income	**$ 14,311**	**$ 9,210**	**$ 7,970**
Net income per common share outstanding:			
Basic	$ 1.95	$ 1.27	$ 1.11
Diluted	$ 1.93	$ 1.26	$ 1.10
Weighted average common shares outstanding:			
Basic	7,347	7,248	7,190
Diluted	7,430	7,337	7,275

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2018, 2017 and 2016

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
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**
Share-based compensation	31	—	1,212	—	—	—	1,212
Exercise of stock options net of shares presented for exercise	79	1	1,269	—	—	—	1,270
Net share settlement of restricted stock units and stock option tax withholding	(5)	—	(144)	—	—	—	(144)
Excess tax benefits on share-based compensation - adjustment	—	—	167	—	—	—	167
ASC 606 adjustments	—	—	—	(71)	—	—	(71)
Net income	—	—	—	14,311	—	—	14,311
Balance at December 31, 2018	**7,385**	**$ 74**	**$ 29,168**	**$ 111,802**	**30**	**$ (587)**	**$ 140,457**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2018	2017	2016
Cash flows from operating activities:			
Net income from consolidated operations	$ 14,311	$ 9,210	$ 7,970
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,831	5,635	5,634
(Gain) Loss on sales of property, plant and equipment	(47)	7	2
Share-based compensation	1,212	1,068	1,056
Deferred income taxes	1,881	(1,019)	576
Excess tax benefits on share-based compensation	—	—	(145)
Changes in operating assets and liabilities:			
Receivables, net	(2,556)	(132)	(3,768)
Inventories	(2,295)	1,288	51
Prepaid expenses	(249)	446	(1,351)
Refundable income taxes	(1,268)	(210)	209
Other assets	(76)	(228)	(97)
Accounts payable	1,113	93	(683)
Accrued expenses	1,472	974	(567)
Deferred revenue	35	91	206
Non-qualified deferred compensation plan and other liabilities	(44)	246	213
Net cash provided by operating activities	**21,320**	**17,469**	**9,306**
Cash flows from investing activities:			
Additions to property, plant and equipment	(5,428)	(10,382)	(7,206)
Acquisition of Dielectrics, net cash acquired	(76,978)	—	—
Proceeds from sale of property, plant and equipment	77	7	14
Net cash used in investing activities	**(82,329)**	**(10,375)**	**(7,192)**
Cash flows from financing activities:			
Proceeds from advances on revolving line of credit	36,000	—	—
Payments on revolving line of credit	(28,000)	—	—
Proceeds from the issuance of long-term debt	20,000	—	—
Principal repayment of long-term debt	(2,857)	(856)	(1,014)
Proceeds from the exercise of stock options, net of shares presented for exercise	1,270	677	529
Payment of statutory withholding for stock options exercised and restricted stock units vested	(144)	(296)	(219)
Excess tax benefits on share-based compensation	—	—	145
Net cash provided by (used in) financing activities	**26,269**	**(475)**	**(559)**
Net change in cash and cash equivalents	(34,740)	6,619	1,555
Cash and cash equivalents at beginning of year	37,978	31,359	29,804
Cash and cash equivalents at end of year	**$ 3,238**	**$ 37,978**	**$ 31,359**

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, aerospace and defense, consumer, electronics and industrial 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., Dielectrics, 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, 2018, the Company did not have any cash equivalents and at December 31, 2017, 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 accounts at Bank of America and TD Bank at December 31, 2018, exceed the federal depository insurance limit by approximately $3.8 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, 2018.

(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, 2018.

(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. No events or changes in circumstances arose during the year ended December 31, 2018, which required management to perform an impairment analysis.

(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. In testing goodwill for impairment at December 31, 2018, the Company primarily 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 in size and market capitalization to each other and to the Company.

As of December 31, 2018, based on our calculations under the above-noted approach, the fair value of the reporting unit significantly exceeded the carrying value of the reporting unit. 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 net carrying amounts of goodwill for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	Goodwill
December 31, 2017	$ 7,322
Acquired in Dielectrics business combination (See Note 22)	44,516
December 31, 2018	**$ 51,838**

Approximately $47.9 million of goodwill is deductible for tax purposes.

(j) Intangible Assets

Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from 5 to 20 years. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their carrying values may not be recoverable. No events or changes in circumstances arose during the year ended December 31, 2018, which required management to perform an impairment analysis.

(k) Revenue Recognition

Beginning in 2018, the Company recognizes revenue when a customer obtains control of a promised good or service. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for promised goods or services. The Company recognizes revenue in accordance with the core principles of ASC 606 which 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. The Company recognizes all but an immaterial portion of its product sales upon shipment. The Company recognizes revenue from the sale of tooling and machinery primarily upon customer acceptance, with the exception of certain tooling where control does not transfer to the customer, which results in revenue being recognized over the estimated time for which parts are produced with the use of each respective tool. The Company recognizes revenue from engineering services as the services are performed. Although only applicable to an insignificant number of transactions, the Company has elected to exclude sales taxes from the transaction price. The Company has elected to account for shipping and handling activities for which the Company is responsible under the terms and conditions of the sale not as performance obligations but rather as fulfillment costs. These activities are required to fulfill the Company's promise to transfer the good and are expensed when revenue is recognized.

For the years 2017 and 2016, prior to ASC 606, the Company recognized 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). Forfeitures are expensed as they occur.

The Company issues share-based awards through several plans that are described in detail in Note 12. The compensation cost charged against income for those plans is included in selling, general and administrative expenses as follows (in thousands):

	Year Ended December 31		
	2018	**2017**	**2016**
Share-based compensation expense	$ 1,212	$ 1,068	$ 1,056

The compensation expense for stock options granted during the three-year period ended December 31, 2018, 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		
	2018	**2017**	**2016**
Expected volatility	27.7%	27.4% to 29.1%	29.7%
Expected dividends	None	None	None
Risk-free interest rate	2.7%	1.56% to 1.84%	0.9%
Exercise price	$31.20	$27.05-$28.70	$22.02
Expected term	6.0 years	2.7 to 5.8 years	5.0 years
Weighted-average grant-date fair value	$ 10.15	$ 5.59 to $ 8.51	$ 6.11

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 $544,000, $525,000 and $318,000 for the years ended December 31, 2018, 2017 and 2016, 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) 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 or 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.

(p) 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 18).

(q) 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, 2018 and 2017.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which was subsequently updated ("Accounting Standards Codification (ASC) 606"). The Company adopted ASC 606 on January 1, 2018. See Note 2 for further details.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases* (ASC 842)," and issued subsequent amendments to the initial guidance in January 2018 within ASU No. 2018-01 and in July 2018 within ASU Nos. 2018-10 and 2018-11. The standard requires lessees to recognize leases on the balance sheet as a right-of-use ("ROU") asset and a lease liability, other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of the lease payments. The asset will be based on the liability, subject to adjustment. Currently, under existing U.S. generally accepted accounting principles, the Company does not recognize on the balance sheet a right-of-use asset or lease liability related to its operating leases. For income statement purposes, the leases will continue to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases), and finance leases will result in a front-loaded expense pattern (similar to current capital leases). The standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The standard allows an entity to elect to have a date of initial application as of the beginning of the period of adoption. The standard provides for the option to elect a package of practical expedients upon adoption.

The Company adopted ASC 842 as of January 1, 2019, using a modified retrospective approach and applying the standard's transition provisions at January 1, 2019, the effective date. The Company elected the package of practical expedients permitted under the transition guidance, which among other things, allows us to carry forward the historical lease classification. In addition, the Company elected to combine the lease and non-lease components into a single lease component for its leases and is making an accounting policy election to exclude from balance sheet reporting those leases with initial terms of 12 months or less. The Company estimates that adoption of the standard will result in recognition of operating lease ROU assets and lease liabilities of approximately $4.0 million and $4.1 million, respectively, with the difference due to deferred rent that will be reclassified to the ROU asset value. We do not expect adoption of the standard to materially affect our results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other* (ASC 350), Simplifying the Test for Goodwill Impairment. The guidance removes Step 2 of the goodwill impairment test and eliminates the need to determine the fair value of individual assets and liabilities to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The guidance will be applied prospectively and is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed on testing dates after January 1, 2017. The Company does not believe adoption will have a material impact on its financial condition or results of operations.

Revisions

Certain revisions have been made to the December 31, 2017 Condensed Consolidated Balance Sheet to conform to the current year presentation relating to a reclassification of deferred revenue. The reclassification resulted in an increase in deferred revenue and a decrease in accrued expenses in the amount of approximately $297,000. In addition, certain revisions have been made to the Condensed Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016, also due to a reclassification of deferred revenue. The reclassification resulted in an increase to the change in deferred revenue and a decrease in the change in accrued expenses in the amount of approximately $91,000 and $206,000 for the years ended December 31, 2017 and 2016, respectively. These revisions had no impact on previously reported net income and are deemed immaterial to the previously issued financial statements.

(2) Revenue Recognition

On January 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers*, using the modified retrospective transition method. Under this method, the Company applied ASC 606 to contracts under which all performance obligations were not completed as of January 1, 2018, and recognized the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. Results for reporting periods beginning after January 1, 2018, are presented in accordance with ASC 606. Prior period amounts are not adjusted and are reported in accordance with, requirements in ASC 605, *Revenue Recognition*, which is also referred to herein as "legacy GAAP."

The cumulative effect of the adoption on our condensed consolidated balance sheet, by applying the modified retrospective method as of January 1, 2018, is as follows (in thousands):

	As Reported December 31, 2017	Cumulative Adjustments	As Adjusted January 1, 2018
Assets:			
Property, plant and equipment	$ 106,716	$ 1,027	$ 107,743
Accumulated depreciation and amortization	(53,064)	(548)	(53,612)
Net property, plant and equipment	**53,652**	**479**	**54,131**
Liabilities:			
Deferred revenue	297	574	871
Deferred income taxes	2,440	(25)	2,415
Stockholders' Equity:			
Retained earnings	97,562	(70)	97,492

The following reflects the Company's condensed consolidated balance sheet and condensed consolidated statement of income on an as-reported basis and as if we had continued to recognize revenue under legacy GAAP (in thousands):

	December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Difference
Assets:			
Property, plant and equipment	$ 111,779	$ 110,372	$ 1,407
Accumulated depreciation and amortization	(54,112)	(53,110)	(1,002)
Net property, plant and equipment	**57,667**	**57,262**	**405**
Liabilities:			
Deferred revenue	2,507	2,129	378
Deferred income taxes	4,129	4,154	(25)
Stockholders' Equity:			
Retained earnings	111,802	111,750	52

	For the Year Ended December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Difference
Net sales	$ 190,455	$ 190,259	$ 196
Cost of sales	142,147	142,073	74
Gross profit	**48,308**	**48,186**	**122**

The following summarizes the significant changes under ASC 606 as compared to legacy GAAP:

- Under legacy GAAP, the Company recognized revenue for certain customer tooling at the time the tooling was complete and accepted by the customer. Under ASC 606, as “control” of this tooling does not transfer to the customer, the related purchase orders do not qualify as an “accounting contract” and as a result the consideration received is recorded as deferred revenue and recognized over the estimated time for which parts are produced on each respective tool (approximately two years). The related costs to produce the tooling are capitalized and depreciated over the estimated useful life of the tool (approximately two years).

- Under legacy GAAP, the Company recognized revenue on certain long-term agreements with variable pricing at the selling price that was in effect for the current period at the time of shipment. Under ASC 606, the Company will recognize revenue for these contracts at the weighted average selling price for each part over the term of the agreement for any agreements where the Company estimates that we will not be able to achieve the corresponding cost changes necessary to maintain a consistent margin over the term of the agreement. The Company has a small number of long-term agreements with variable pricing.

The Company recognizes revenue when a customer obtains control of a promised good or service. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for promised goods or services. The Company recognizes revenue in accordance with the core principles of ASC 606, which 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. The Company recognizes all but an immaterial portion of its product sales upon shipment. The Company recognizes revenue from the sale of tooling and machinery primarily upon customer acceptance, with the exception of certain tooling where control does not transfer to the customer, which results in revenue being recognized over the estimated time for which parts are produced with the use of each respective tool. The Company recognizes revenue from engineering services as the services are performed. Although only applicable to an insignificant number of transactions, the Company has elected to exclude sales taxes from the transaction price. The Company has elected to account for shipping and handling activities for which the Company is responsible under the terms and conditions of the sale not as performance obligations but rather as fulfillment costs. These activities are required to fulfill the Company’s promise to transfer the good and are expensed when revenue is recognized.

Disaggregated Revenue

The following table presents the Company’s revenue disaggregated by the major types of goods and services sold to our customers (in thousands) (See Note 9 for further information regarding net sales by market):

	Year Ended December 31		
	2018	**2017**	**2016**
Net sales of:			
Products	$ 183,186	$ 146,275	$ 144,210
Tooling and Machinery	4,302	1,181	1,633
Engineering services	2,967	387	289
Total net sales	**$ 190,455**	**$ 147,843**	**$ 146,132**

Contract balances

The timing of revenue recognition may differ from the timing of invoicing to customers. When invoicing occurs prior to revenue recognition, the Company has deferred revenue (contract liabilities), included within “deferred revenue” on the condensed consolidated balance sheets.

The following table presents opening and closing balances of contract liabilities for the year ended December 31, 2018 (in thousands):

	Contract Liabilities
Deferred revenue - January 1, 2018	$ 871
Acquired in Dielectrics business combination	2,175
Increases due to consideration received from customers	4,188
Revenue recognized	(4,727)
Deferred revenue - December 31, 2018	**$ 2,507**

Revenue recognized during the year ended December 31, 2018, from amounts included in deferred revenue at the beginning of the period was approximately $615,000.

When invoicing occurs after revenue recognition, the Company has unbilled receivables (contract assets) included within “receivables” on the condensed consolidated balance sheet. Unbilled receivables were approximately $65,000 at December 31, 2018, and were generated as a result of revenue recognized during the year ended December 31, 2018, that had not yet been billed.

(3) Supplemental Cash Flow Information

	Year Ended December 31		
	2018	2017	2016
Cash paid for:		(in thousands)	
Interest	$ 1,303	$ 47	$ 66
Income taxes, net of refunds	$ 3,463	$ 3,878	$ 3,562
Non-cash investing and financing activities:			
Capital additions accrued but not yet paid	$ 218	$ 85	$ 87

During the years ended December 31, 2018, 2017 and 2016, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock ("cashless" exercises) totaling approximately $0, $172,000 and $166,000, respectively.

(4) Receivables

Receivables consist of the following (in thousands):

	December 31	
	2018	2017
Accounts receivable—trade	$ 28,885	$ 22,033
Less allowance for doubtful receivables	(564)	(652)
Receivables, net	**$ 28,321**	**$ 21,381**

Receivables are written off against these reserves in the period they are determined to be uncollectable, 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 (reversal of) provision for doubtful accounts of approximately $(50,000) and $116,000 for the years ended December 31, 2018 and 2017, respectively.

(5) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2018	2017
Raw materials	$ 11,727	$ 6,898
Work in process	2,521	1,207
Finished goods	5,328	4,758
Total Inventory	**$ 19,576**	**$ 12,863**

(6) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2018, are as follows (in thousands):

	Trade Name & Brand	Non-Compete	Customer List	Total
Estimated useful life	10 years	5 years	20 years	
Gross amount	$ 367	$ 462	$ 22,555	$ 23,384
Accumulated amortization	(33)	(85)	(1,034)	(1,152)
Net balance	**$ 334**	**$ 377**	**$ 21,521**	**$ 22,232**

The weighted-average amortization period for all intangible assets is 19.6 years. Amortization expense related to intangible assets was approximately $1.2 million, $0.3 million and $0.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The estimated remaining amortization expense as of December 31, 2018, is as follows (in thousands):

2019	$ 1,257
2020	1,257
2021	1,257
2022	1,257
2023	1,172
Thereafter	16,032
Total	**$ 22,232**

(7) Property, Plant and Equipment

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

	December 31 2018	2017
Land and improvements	$ 3,191	$ 3,191
Buildings and improvements	35,187	28,939
Leasehold improvements	2,843	2,553
Machinery & Equipment	62,441	58,602
Furniture, fixtures, computers & software	7,119	6,820
Construction in progress	999	6,611
	$ 111,780	**$ 106,716**

Depreciation and amortization expense of Property, Plant and Equipment for the years ended December 31, 2018, 2017 and 2016, were approximately $6.6 million, $5.3 million and $5.3 million, respectively.

(8) 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.

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 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.

The credit facilities under the Amended and Restated Credit Agreement (the "Amended and Restated Credit Facilities") consist of a $20 million unsecured term loan and an unsecured revolving credit facility, under which the Company may borrow up to $50 million. The Amended and Restated Credit Agreement matures on February 1, 2023. The proceeds borrowed pursuant to the Amended and Restated Credit Agreement may be used for general corporate purposes, including funding the acquisition of Dielectrics, Inc. ("Dielectrics") (See Note 22), as well as certain other permitted acquisitions. The Company's obligations under the Amended and Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

The Amended and Restated Credit Agreement calls 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 December 31, 2018, the applicable interest rate was approximately 3.52%, and the Company was in compliance with all covenants under the Amended and Restated Credit Agreement.

Included in the Amended and Restated Credit Facilities was approximately $0.6 million in standby letters of credit as a financial guarantee on worker's compensation insurance policies.

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

	December 31, 2018
Revolving credit facility	$ 8,000
Term loan	17,143
Total long-term debt	**25,143**
Current portion	(2,857)
Long-term debt, excluding current portion	**$ 22,286**

Derivative Financial Instruments

The Company uses interest-rate-related derivative instruments to manage its exposure related to changes in interest rates on certain of its variable-rate debt instruments. The Company does not enter into derivative instruments for any purpose other than cash flow hedging. The Company does not speculate using derivative instruments. By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, creating credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, in these circumstances the Company is not exposed to the counterparty's credit risk. The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with carefully selected major financial institutions based upon their credit profile. Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Company assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company's debt obligations expose the Company to variability in interest payments due to changes in interest rates. The Company believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, 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. The notional amount was $17,142,856 at December 31, 2018. The fair value of the swap as of December 31, 2018, was approximately $64,000 and is included in other assets. Changes in the fair value of the swap are recorded in other income/expense and resulted in income of approximately $64,000 during the year ended December 31, 2018.

(9) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2018	**2017**
Compensation	$ 3,529	$ 2,536
Benefits/self-insurance reserve	782	334
Paid time off	1,131	990
Commissions payable	384	309
Other	2,632	1,297
	$ 8,458	**$ 5,466**

(10) Income Taxes

The Company's income tax provision for the years ended December 31, 2018, 2017 and 2016 consists of the following (in thousands):

	Years Ended December 31		
	2018	**2017**	**2016**
Current:			
Federal	$ 1,772	$ 3,117	$ 3,120
State	439	551	651
	2,211	**3,668**	**3,771**
Deferred:			
Federal	1,917	(1,091)	546
State	(36)	72	30
	1,881	**(1,019)**	**576**
Total income tax provision	**$ 4,092**	**$ 2,649**	**$ 4,347**

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	
	2018	**2017**
Deferred tax assets:		
Reserves	$ 367	$ 398
Inventory capitalization	421	228
Compensation programs	447	394
Retirement liability	2	7
Equity-based compensation	290	158
Deferred rent	11	6
Intangible assets	141	274
State tax credits, net of federal impact	257	—
Total deferred tax assets	**$ 1,936**	**$ 1,465**
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	$ (4,668)	$ (3,305)
Goodwill	(1,397)	(600)
Total deferred tax liabilities	**(6,065)**	**(3,905)**
Net long-term deferred tax liabilities	**$ (4,129)**	**$ (2,440)**

The amounts recorded as deferred tax assets as of December 31, 2018 and 2017, 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 approximately $1.9 million at December 31, 2018, 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 Company has approximately $325,000 of tax credit carryforwards related to one state jurisdiction that expire in 2022.

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 21% to income before income tax expense as follows:

	Years Ended December 31		
	2018	**2017**	**2016**
Computed "expected" tax rate	21.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	2.8	3.5	3.7
Meals and entertainment	0.2	0.3	0.2
Tax credits	(1.9)	(0.6)	(0.6)
Domestic production deduction	—	(2.6)	(2.5)
Non-deductible ISO stock option expense	0.1	0.1	0.3
Unrecognized tax benefits	—	—	(0.1)
Excess tax benefits on equity awards	(1.3)	(1.4)	—
Excess compensation	0.8	—	—
Impact on deferred taxes of new legislation	—	(11.1)	—
Other	0.5	0.1	0.3
Effective tax rate	**22.2%**	**22.3%**	**35.3%**

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. Income tax returns in Colorado are currently being audited for the years 2014 through 2017. Federal and state tax returns for the years 2015 through 2018 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	
	2018	2017
Gross UTB balance at beginning of fiscal year	$ 150	$ 150
Reductions for tax positions of prior years	—	—
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, 2018 and 2017 is $150,000 and $150,000, respectively.

In addition, the total amount of accrued interest and penalties on uncertain tax positions at December 31, 2018 and 2017 is $153,000 and $153,000, respectively.

At December 31, 2018, all of the unrecognized tax benefits relate to tax returns of a specific state jurisdiction that are currently under examination. On January 17, 2019, the Company came to an agreement with the state, and on February 21, 2019, the Company received a check in the amount of $156,000 as settlement of the unrecognized tax benefits. Therefore, the Company anticipates a reduction to zero of its gross UTB balance in the first quarter of 2019.

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. Also on this date, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 118 to provide guidance to companies on how to implement the accounting and disclosure changes in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of H.R.1, also known as the 2017 Tax Act. Consistent with SAB 118, 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.

As of December 31, 2018, the Company has completed its assessment of the total impact of the 2017 Tax Act, which resulted in a reduction in our deferred tax assets and liabilities for the change in the domestic tax rate and a reduction of deferred tax assets related to executive stock-based compensation that would not be realized under the provisions of Internal Revenue Code Section 162(m). In 2018, we revised our overall reduction in our deferred tax assets by $50,000 to reflect our analysis over stock-based compensation.

(11) 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		
	2018	2017	2016
Basic weighted average common shares outstanding during the year	7,347	7,248	7,190
Weighted average common equivalent shares due to stock options and restricted stock units	83	89	85
Diluted weighted average common shares outstanding during the year	**7,430**	**7,337**	**7,275**

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, 2018, 2017 and 2016, the number of stock awards excluded from the computation was 10,344, 27,336 and 52,377, respectively.

(12) 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):

Share-based compensation related to:	2018	2017	2016
	Years Ended December 31		
Common stock grants	$ 505	$ 505	$ 505
Stock option grants	149	138	237
Restricted Stock Unit awards	559	425	314
Total share-based compensation	$ 1,213	$ 1,068	$ 1,056

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 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, 2018, 1,236,812 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 73,392 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, 2018, 185,000 options have been granted, and 49,375 options are outstanding. At December 31, 2018, 854,077 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, 2018, 348,490 options have been granted and 106,543 options are outstanding. For the year ended December 31, 2018, 3,366 shares of common stock were issued and 101,626 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, 2017	**202,739**	**$ 18.23**	—	—
Granted	10,344	31.20	—	—
Exercised	(78,680)	31.43	—	—
Outstanding December 31, 2018	**134,403**	**$ 20.46**	**4.50**	**$ 1,296**
Exercisable at December 31, 2018	**126,543**	**$ 19.97**	**4.53**	**$ 1,286**
Vested and expected to vest at December 31, 2018	**134,403**	**$ 20.46**	**4.50**	**$ 1,296**

During the years ended December 31, 2018, 2017 and 2016, 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 $1.2 million, $0.6 million and $0.7 million, respectively, and the total amount of consideration received from the exercise of these options was approximately $1.3 million, $0.8 million and $0.7 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, 2018, no shares were surrendered for this purpose. 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.

On February 21, 2018, 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 12, 2018.

On June 6, 2018, the Company issued 3,366 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 and employees. 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, 2018:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2017	**57,395**	**$ 21.03**
Awarded	30,831	29.36
Shares vested	(16,050)	23.55
Outstanding at December 31, 2018	**72,176**	**$ 23.60**

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, 2018, 5,238 shares were redeemed for this purpose at an average market price of $27.60. During the years ended December 31, 2017 and 2016, 4,377 and 3,389 shares were redeemed for this purpose at an average market price of $24.50 and $22.82, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2018, vest (in thousands):

	Options	Common Stock	Restricted Stock Units	Total
2019	$ 28	$ —	$ 502	$ 530
2020	28	—	416	444
2021	—	—	250	250
2022	—	—	30	30
Total	**$ 56**	**$ —**	**$ 1,198**	**$ 1,254**

Tax benefits totaling approximately $0, $0 and $145,000 were recognized as additional paid-in capital during the years ended December 31, 2018, 2017 and 2016, respectively, since the Company's tax deductions exceeded the share-based compensation charge recognized for stock options exercised and RSUs vested.

(13) 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 expired on March 19, 2019. On March 13, 2019, the Company's Board of Directors voted not to replace the Rights when they expired.

(14) 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 $2,000, $3,000 and $4,000 for the years ended December 31, 2018, 2017 and 2016, respectively. The present value of the supplemental retirement obligation has been calculated using a 4.1% discount rate and is included in other liabilities. Total projected future cash payments for the year ending December 31, 2019, are approximately $25,000, representing the completion of all retirement arrangements under this arrangement.

(15) Commitments and Contingencies

(a) ***Leases*** – The Company has operating leases for certain facilities that expire through 2023. 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, 2018, are as follows (in thousands):

Years Ending December 31		**Operating Leases**
2019	$	1,051
2020		1,070
2021		1,063
2022		975
2023		36
Total minimum lease payments	**$**	**4,195**

Rent expense amounted to approximately $1.2 million, $0.9 million and $0.8 million in 2018, 2017 and 2016, 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.

(16) 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 $1.1 million, $0.8 million and $0.7 million in 2018, 2017 and 2016, 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 the liabilities section in the accompanying balance sheets. At December 31, 2018 and 2017, the balance of the deferred compensation liability totaled approximately $2.0 million and $2.0 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 classified within the other assets section of the accompanying balance sheets and are accounted for based on the underlying cash surrender values of the policies and totaled approximately $2.0 million and $2.0 million as of December 31, 2018 and 2017, respectively.

(17) 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 model.

The following table presents the fair value and hierarchy levels for financial assets that are measured at fair value on a recurring basis (in thousands):

Level 2	December 31, 2018
Assets:	
Derivative financial instruments	$ 64

Derivative financial instruments consist of an interest rate swap for which fair value is determined through the use of a pricing model that utilizes verifiable inputs such as market interest rates that are observable at commonly quoted intervals for the full term of the swap agreement.

The Company has financial instruments, such as accounts receivable, accounts payable and accrued expenses, that 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 estimated borrowing rate currently available to the Company.

(18) 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, 2018. 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, Consumer, Automotive, Aerospace and Defense, Electronics and Industrial markets. Sales by market for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

Market	2018 Net Sales	%	2017 Net Sales	%	2016 Net Sales	%
Medical	$ 110,282	57.9%	$ 70,087	47.4%	$ 64,733	44.3%
Consumer	24,989	13.1%	21,328	14.4%	20,721	14.2%
Automotive	20,012	10.5%	23,118	15.6%	27,255	18.7%
Aerospace & Defense	13,133	6.9%	11,521	7.8%	10,951	7.5%
Electronics	11,453	6.0%	11,960	8.1%	11,675	8.0%
Industrial	10,586	5.6%	9,829	6.6%	10,797	7.4%
Net Sales	**$ 190,455**	**100.0%**	**$ 147,843**	**100.0%**	**$ 146,132**	**100.0%**

Certain amounts for the year ended December 31, 2017 and 2016 were reclassified between markets to conform to the current year presentation.

(19) Quarterly Financial Information (unaudited)

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

2018	Q1	Q2	Q3	Q4
Net sales	$ 42,931	$ 49,019	$ 47,808	$ 50,697
Gross profit	10,185	12,986	12,431	12,706
Net income	1,777	3,990	4,134	4,410
Basic net income per share	0.24	0.54	0.56	0.60
Diluted net income per share	0.24	0.54	0.56	0.59

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

(20) 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 incurred approximately $2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount is approximately $180,000 relating to employee severance payments and relocation costs; approximately $1.6 million is 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 has recorded the following restructuring costs associated with the consolidations discussed above for the years ended December 31, 2017 and 2016 (in thousands):

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

The above costs were reclassified in the Consolidated Statements of Income as "Restructuring Costs" from Cost of Sales.

(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, 2018, 2017 and 2016, the Company received settlement amounts of approximately $0.1 million, $0.1 million and $2.1 million, respectively. These settlement amounts are recorded as "Material overcharge settlement" in the operating income section of the Consolidated Statements of Income.

(22) Acquisition

On February 1, 2018, the Company purchased 100% of the outstanding shares of common stock of Dielectrics, Inc. pursuant to a stock purchase agreement and related agreements, for an aggregate purchase price of $80 million in cash. The purchase price was subject to adjustment based upon Dielectrics' working capital at closing. An additional $250,000 of consideration was paid by the Company as a result of the final working capital adjustment. A portion of the purchase price is being held in escrow to indemnify the Company against certain claims, losses and liabilities. The Purchase Agreement contains customary representations, warranties and covenants customary for transactions of this type.

Founded in 1954 and based in Chicopee, Massachusetts, Dielectrics is a leader in the design, development and manufacture of medical devices using thermoplastic materials. They primarily use radio frequency and impulse welding to design and manufacture solutions for the medical industry. The Company has leased the Chicopee location from a realty trust owned by the selling shareholder and affiliates. The lease is for five years with two five-year renewal options.

The following table summarizes the allocation of consideration paid to the acquisition date fair value of the assets acquired and liabilities assumed based on management's estimates of fair value (in thousands):

Consideration Paid:		
Cash paid at closing	$	80,000
Working capital adjustment		250
Cash from Dielectrics		(3,272)
Total consideration	**$**	**76,978**
Purchase Price Allocation:		
Accounts receivable	$	4,384
Inventory		4,418
Other current assets		122
Property, plant and equipment		4,600
Customer list		22,555
Non-compete		462
Trade name and brand		367
Goodwill		44,516
Total identifiable assets	**$**	**81,424**
Accounts payable		(1,325)
Accrued expenses		(946)
Deferred revenue		(2,175)
Net assets acquired	**$**	**76,978**

Acquisition costs associated with the transaction were approximately $1.1 million and were charged to expense in the year ended December 31, 2018. These costs were primarily for investment banking and legal fees and are reflected on the face of the income statement.

The following table contains an unaudited pro forma condensed consolidated statement of operations for the years ended December 31, 2018 and 2017, as if the Dielectrics acquisition had occurred at the beginning of each of the respective periods (in thousands):

	Year Ended December 31,			
		2018		**2017**
		(Unaudited)		(Unaudited)
Sales	$	193,510	$	180,419
Operating income	$	19,464	$	18,990
Net income	$	14,110	$	13,126
Earnings per share:				
Basic	$	1.92	$	1.81
Diluted	$	1.90	$	1.79

The above unaudited pro forma information is presented for illustrative purposes only and may not be indicative of the results of operations that would have occurred had the Dielectrics acquisition occurred as presented. In addition, future results may vary significantly from the results reflected in such pro forma information.

The amount of revenue and net income of Dielectrics recognized since the acquisition date, which is included in the condensed consolidated statement of income for the year ended December 31, 2018, was approximately $36.2 million and $6.3 million, respectively.

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, and the Company's plan to expand in certain of its markets, statements regarding macroeconomic trends and their results on our business, statements regarding new customer and vendor contracts; anticipated advantages relating to the Company's plant consolidation program and the expected cost savings and efficiencies associated therewith; 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; expectations regarding the Company's manufacturing capacity and efficiencies; 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 seeking and implementing manufacturing efficiencies; risks associated with the Company's new 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 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, 2018. 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 5, 2019, 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, 2018, 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.

COMPANY WEBSITE
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**
Former Partner and
National Chair
Medical Device Industry

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

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

Marc D. Kozin **d**
Professional Board Member

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

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

Lucia Luce Quinn **d**
Chief People Officer
WuXi NextCode

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 the never-ending process of continuously improving our quality of products, service, communications, relationships and commitments.

SIMPLIFICATION
We seek to simplify our business process through the constant reexamination 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