

BRINGING THE FUTURE INTO FOCUS



UFP
TECHNOLOGIES

2019 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

- 2** CEO's Letter
- 8** Selected Financial Data
- 9** Management's Discussion and Analysis of Financial Condition and Results of Operations
- 18** Financial Statements
- 40** Stockholder Information



We continue to shift our business toward higher-margin, longer-run opportunities, particularly in the medical market.

DEAR FELLOW SHAREHOLDER,

As I write this letter, we are in a fast-changing and unprecedented environment due to the coronavirus outbreak. We are working hard to keep our employees and communities safe, and to ensure the continuity of supply to our customers.

We do important work that feeds our healthcare system with products and components that impact patient safety, comfort and well-being – and most crucially the outcome of their hospital stays and procedures. From preventing infections, to providing patient surfaces such as hospital bed mattresses, to producing home rehabilitation products that help patients advance their healing outside of the hospital, we view it as our duty to apply all our capabilities to help mitigate this crisis. In order to continue this vital work, keeping our factories clean and safe for our employees is absolutely essential.

It is hard to know the overall impact COVID-19 will have on our business. In some cases, customers are asking us to double our output to keep up with increased demand. But I also know that some of our solutions are used in elective medical procedures that will likely be delayed until the pandemic has passed.

What I can share with you is that, as of this writing, we are working diligently with our suppliers (almost all of which are based in the U.S.) to meet the needs and requests of our customers and communities. We are here to serve in every way we possibly can, and determined to do our part to help bring this crisis under control.

YEAR IN REVIEW AND FUTURE OUTLOOK

Turning now to our 2019 results, I can report that it was another record year for UFP Technologies. Our revenues rose 4% to \$198.4 million, while net income grew 38% to \$19.75 million. Why was that bottom line growth percentage so much greater? The answer lies in how your Company has evolved – and how this evolution has clarified our vision for the future.

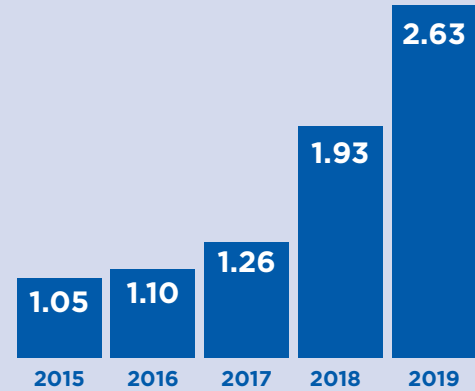
A CONSTANTLY IMPROVING BOOK OF BUSINESS

For years, we have been shifting our business toward higher-margin, longer-run opportunities, particularly in the medical market. After growing 16.9% in 2019, medical sales now account for 65% of our total.

That's because we bring a deep expertise in areas such as infection prevention, wound care, orthopedics and minimally invasive surgery. As I've said many times, this is where customer needs and our unique skills are perfectly aligned. Because innovative solutions, precision manufacturing and quality are paramount, our engineering talent, materials expertise and production systems are highly valued across this large and growing market. In fact, our customers now include most of the world's largest medical device manufacturers. The margins are strong, and the programs typically last many years.



DILUTED EARNINGS PER SHARE



At the same time, we've been optimizing our overall book of business, shifting away from lower-margin, smaller-volume jobs in some of our less strategic segments. We still see great opportunities in other areas such as aerospace & defense. And we will continue to produce valuable solutions for our automotive, consumer, electronics and industrial customers, who remain essential to our overall mix. But in many cases, these programs don't require our full arsenal of capabilities. So our resources, such as engineering talent and capital, are disproportionately aimed at the faster-growing medical opportunities.

As a result, we've refocused our organizational structure into two groups. The Medical Technology group will work to continue building our thriving medical and biotech business. The Advanced Components group will focus on creating longer-term, higher-margin solutions for non-medical markets. Each group will take an integrated approach, combining sales, engineering and operations teams to target new opportunities and grow existing ones. You can read more about it in the following pages.

ALSO DRIVING PROFITS: GREATER OPERATING EFFICIENCY

This has been another major point of emphasis in recent years. A series of lean manufacturing initiatives and automation investments have improved our efficiency and reduced direct labor

costs as a percentage of sales – despite rising wages in a challenging labor market. As a result, we have increased gross margins from 24% of sales to 27.2% in the past two years alone. Long-term contracts and partnerships with both suppliers and customers have helped to justify these efficiency investments and create a win-win environment for all involved.

SETTING UP OUR NEXT STAGE OF GROWTH

There are some other important ways we've been moving our business forward.

- **Adding experienced talent across the Company.** We brought on a new chief operating officer for our Dielectrics team, who now leads operations at two of UFP's most important medical facilities. And we added key talent to our program management, engineering, sales and quality groups. We will continue to strengthen the team and work to increase employee engagement. This will help us benefit from everyone's great ideas, and ensure that all team members have a clear understanding of our strategy and how they fit into it.
- **Ramping up product development.** We are focused on growing our product development business, which brings several key benefits. It tightens our customer and vendor relationships as we collaborate on product design. It feeds our production pipeline and often translates into



long-term, high-margin manufacturing revenue in the years ahead. It also increases our knowledge base and technical capabilities – and allows us to benefit from significant R&D tax incentives.

- **Paying off debt and freeing up capital for acquisitions.** We paid off the balance of the \$56 million we borrowed to purchase Dielectrics in 2018, a testament to the quality of the acquisition and the value created by combining these two businesses. Now we again have ample borrowing capacity to finance future acquisitions aimed at increasing our value to customers with new capabilities, talent or locations.
- **Improving metrics in several key areas.** We made important strides to improve our quality systems, on-time delivery and critical safety metrics. We're building our in-house expertise and utilizing third-party experts to continue to improve these areas and provide additional employee training and support.
- **Earning workplace recognition.** UFP has recently been named among “The Best and Brightest Companies to Work For®” at our two largest locations in Massachusetts and Michigan. The measures include communication, work-life balance, employee education, diversity, recognition, retention and more. Awards like this are a testament to our increasing employee engagement, and help us attract the dedicated talent we need to continue growing the business.

MARKET-FOCUSED, CUSTOMER-DRIVEN

While the past few years have brought unprecedented change and growth, our core values and strategic vision have not changed. We focus our resources on the best-fit market opportunities, then strive to continuously increase the value we bring to our customers. We do this with creative problem solving, cutting-edge processing and the kind of market insights and technical expertise for which UFP is known. Innovation is simply in our DNA.

Still, our business has evolved in many important ways, and our vision for the future has become more focused. We know, better than ever, how to become even more valuable to our customers and shareholders, how to build profitable partnerships that endure, and where to direct our energy and resources. As we build on the momentum of recent years, we will pursue the best opportunities before us with passion and purpose. I believe the pieces are all in place for continued success, and I thank you very much for your support.

Sincerely,

R. Jeffrey Bailly
Chairman and CEO



MEDICAL TECHNOLOGY GROUP

Focused on continuing to build our fast-growing medical and biotech business

SOLID PLATFORM, POWERFUL ADVANTAGES

Since 2014, our medical business has delivered a compound annual growth rate of 20.8%. This is our sweet spot. So we've combined key members of our sales, engineering and operations groups into a unified Medical Technology team charged with making these programs an even larger part of our business.

Our medical portfolio includes a broad range of critical offerings, from infection prevention systems and orthopedic implant packaging to medical device development and advanced wound care therapy. As solutions continue to grow more sophisticated, we are ideally positioned to meet customers' changing needs and target new product categories that fit our skills. Our competitive advantages include:

- An engineering group with the proven ability to solve customers' most critical medical device issues



- Exclusive or semi-exclusive access to a range of key medical-grade materials
- Multiple FDA-approved plants with extensive clean room facilities
- Advanced systems to ensure quality
- The ability to design and manufacture custom equipment, and much more



STRONGER TOGETHER

As expected, our 2018 Dielectrics acquisition has performed very well and quickly become an essential part of our medical platform. In 2019, we integrated this business further into UFP by launching a duplicate manufacturing line in a UFP medical facility for one of our fastest-growing Dielectrics programs. This increased capacity enabled us to meet the rising demand, transfer know-how from Dielectrics to UFP, provide a backup manufacturing location for our customer and free up space for new programs at our Dielectrics facility.

This is an excellent example of how our combined medical resources are much more than the sum of their parts. And it illustrates how we will continue to tackle more of the high-value, long-term programs our customers are bringing to us.





ADVANCED COMPONENTS GROUP

Focused on creating longer-lasting, higher-margin solutions

This group utilizes our platform of materials and capabilities to meet the needs of markets outside of medical, where our skills can add significant value and lead to long-term profitable programs. In 2019, non-medical markets combined for approximately \$70 million in sales. Our new Advanced Components group is charged with optimizing the success of these programs - and pursuing new opportunities where we can add the most value and earn the highest returns.

For example, we see strong potential in aerospace & defense, where our materials expertise, engineering talent and precision manufacturing provide a strong competitive edge. The same is true in automotive, where our precision components help to reduce weight and noise for many of the world's leading brands. By bringing these and other non-medical segments under one umbrella, we will work to sharpen our focus on the best-fit opportunities, improve our efficiency and optimize the potential of this important part of our business.



SELECTED FINANCIAL DATA

The following table summarizes the Company's 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 the Company's 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, 2019, 2018 and 2017, and the selected balance sheet data as of December 31, 2019 and 2018, 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, 2016 and 2015, and the selected balance sheet data at December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements not included in this Report.

SELECTED CONSOLIDATED FINANCIAL DATA

Consolidated Statements of Income data	Years Ended December 31				
	(in thousands, except per share data)				
	2019	2018	2017	2016	2015
Net sales	\$ 198,381	\$ 190,455	\$ 147,843	\$ 146,132	\$ 138,850
Gross profit	\$ 53,959	\$ 48,308	\$ 35,487	\$ 34,650	\$ 37,454
Operating income	\$ 24,708	\$ 19,612	\$ 11,693	\$ 12,237	\$ 11,714
Net income from consolidated operations	\$ 19,750	\$ 14,311	\$ 9,210	\$ 7,970	\$ 7,593
Diluted earnings per common share	\$ 2.63	\$ 1.93	\$ 1.26	\$ 1.10	\$ 1.05
Weighted average number of diluted common shares outstanding	7,516	7,430	7,337	7,275	7,206

Consolidated Balance Sheets data	As of December 31				
	(in thousands)				
	2019	2018	2017	2016	2015
Working capital	\$ 36,942	\$ 34,968	\$ 65,131	\$ 60,291	\$ 52,620
Total assets	\$ 188,758	\$ 189,598	\$ 138,207	\$ 127,934	\$ 119,635
Current installments of long-term debt	\$ -	\$ 2,857	\$ -	\$ 856	\$ 1,011
Long-term debt, excluding current installments	\$ -	\$ 22,286	\$ -	\$ -	\$ 859
Total liabilities	\$ 26,767	\$ 49,141	\$ 14,495	\$ 14,881	\$ 16,063
Total stockholders' equity	\$ 161,991	\$ 140,457	\$ 123,712	\$ 113,053	\$ 103,572

MARKET PRICE

The Company's common stock is listed on the NASDAQ Capital Market under the symbol "UFPT". 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, 2018 to December 31, 2019:

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
Fiscal Year Ended December 31, 2019	High	Low
First Quarter	\$ 37.58	\$ 27.80
Second Quarter	42.87	34.05
Third Quarter	46.42	38.00
Fourth Quarter	50.00	38.22

NUMBER OF STOCKHOLDERS

As of March 5, 2020, there were 78 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 beneficial stockholders represented by these holders of record.

DIVIDENDS

The Company did not pay any dividends in 2019 or 2018. The Company presently intends to retain all 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, 2019, 2018 and 2017. During the year ended December 31, 2015, the Company repurchased 29,559 shares of common stock at a cost of approximately \$587 thousand. At December 31, 2019, 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.

Sales for the Company for the year ended December 31, 2019 grew 4.2% to \$198.4 million from \$190.5 million for the year ended December 31, 2018 largely due to strong growth in sales to customers in the medical market. Streamlined manufacturing operations and a better mix of business enabled the Company to improve gross margins to 27.2% for the year ended December 31, 2019, from 25.4% in 2018. Operating income and net income for the year ended December 31, 2019 grew by 26.0% and 38.0%, 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:

	2019	2018	2017
Net sales	100.0%	100.0%	100.0%
Cost of sales	72.8%	74.6%	76.0%
Gross profit	27.2%	25.4%	24.0%
Selling, general and administrative expenses	14.7%	14.5%	16.0%
Acquisition costs	0.0%	0.6%	0.0%
Restructuring costs	0.0%	0.0%	0.0%
Operating income	12.5%	10.3%	8.0%
Total other expense (income)	0.5%	0.7%	-0.1%
Income before taxes	12.0%	9.6%	8.1%
Income tax expense	2.0%	2.1%	1.9%
Net income from consolidated operations	10.0%	7.5%	6.2%

2019 COMPARED TO 2018

Sales

Net sales increased 4.2% to \$198.4 million for the year ended December 31, 2019 from net sales of \$190.5 million in 2018. The increase in sales was primarily due to increased sales to customers in the medical, and aerospace and defense markets of 16.9%, and 5.0%, respectively. These increases were partially offset by a collective decline in sales to the consumer, electronics, and industrial markets of 24.1%. The increase in sales to customers in the medical market was primarily due to strong sales at Dielectrics (including one

additional month of sales of \$3.1 million) as well as increased demand from legacy UFP medical customers. The increased demand for sales to customers in the aerospace & defense market is due to increased government spending. The collective decline in sales to customers in the consumer, electronics and industrial markets was primarily due to decreased demand for molded fiber packaging.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") increased to 27.2% for the year ended December 31, 2019, from 25.4% in 2018. As a percentage of sales, material and direct labor costs collectively decreased approximately 0.5%, while overhead decreased approximately 1.3%. The decrease in collective material and labor costs as a percentage of sales is primarily due to gains in manufacturing efficiencies resulting from continuous improvement initiatives and an improvement in the overall book of business. The decline in overhead as a percentage of sales was primarily due to leveraging fixed overhead costs against increased sales as well as targeted cost cuts.

Selling, General and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") increased approximately 5.8% to \$29.3 million for the year ended December 31, 2019, from \$27.7 million in 2018. As a percentage of sales, SG&A increased to 14.7% in 2019, from 14.5% in 2018. The increase in SG&A is primarily due to one extra month of operations at Dielectrics as well as compensation increases and new strategic management hires at the Company's plants.

Interest Income and Expense

The Company had net interest expense of approximately \$0.7 million and \$1.3 million for the years ended December 31, 2019 and 2018, respectively. The decrease in net interest expense was primarily due to lower debt levels.

Income Taxes

The Company recorded income tax expense, as a percentage of income before income tax expense, of 16.5% for the year ended December 31, 2019 compared to 22.2% for the same period in 2018. The decline in the Company's effective tax rate for the year ended December 31, 2019, was largely due to a significant increase in the amount of business tax credits earned in its federal and state 2018 tax returns due, in part, to qualifying research expenses at Dielectrics.

The Company notes the potential for volatility in its effective tax rate, as any windfall or shortfall tax benefits related to its share-based compensation plans will be recorded directly into income tax expense.

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 16.6% to \$27.7 million for the year ended December 31, 2018, from \$23.7 million in 2017. As a percentage of sales, SG&A decreased to 14.5% in 2018 from 16.0% 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.

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.

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, 2019 was approximately \$31.2 million and was primarily a result of net income generated of approximately \$19.7 million, depreciation and amortization of approximately \$8.2 million, share-based compensation of approximately \$1.6 million, an increase in deferred taxes of approximately \$0.8 million, a decrease in inventory of approximately \$1.3 million, a decrease in refundable income taxes of approximately \$2.0 million, and an increase in other long term liabilities of approximately \$0.3 million due primarily to a change in the fair value of the interest rate swap. These cash inflows and adjustments to income were partially offset by an increase in accounts receivable of approximately \$0.3 million and an increase in accounts payable and accrued expenses of approximately \$2.4 million due to the timing of vendor payments in the ordinary course of business.

Net cash used in investing activities during the year ended December 31, 2019 was approximately \$5.8 million and was primarily the result of additions of manufacturing machinery and equipment and various building improvements across the Company.

Net cash used for financing activities was approximately \$25.0 million for the year ended December 31, 2019, resulting from repayments on the Company's credit facility of approximately \$25.2 million and payments of statutory withholding for stock options exercised and restricted stock units vested of approximately \$0.5 million, offset by net proceeds received upon stock option exercises of approximately \$0.7 million.

Outstanding and Available Debt

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, as well as 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 0.25% 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, 2019, there were \$0.7 million in standby letters of credit outstanding, drawable as a financial guarantee on worker's compensation insurance policies. As of December 31, 2019, the applicable interest rate was approximately 2.8% and the Company was in compliance with all covenants under the Amended and Restated Credit Agreement.

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

	Years Ended December 31	
	2019	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 used 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. Derivative financial instruments expose the Company 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 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 exposed the Company to variability in interest payments due to changes in interest rates. The Company believed that it was 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 modified 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 \$14,285,712 at December 31, 2019. The fair value of the swap as of December 31, 2019 was approximately \$(325) thousand and is included in other liabilities. Changes in the fair value of the swap are recorded in other income/expense and resulted in expense of approximately \$388 thousand and income of \$64 thousand during the years ended December 31, 2019 and 2018, respectively.

During the fourth quarter of 2019, the Company paid the remaining balance of the term loan in its entirety. As a result, there is no longer underlying debt to hedge against with the swap. The changes in the fair value of the swap will continue to be accounted for as a financial instrument until the sooner of the time that the Company elects to cancel it or until its maturity.

Future Liquidity

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service its contractual obligations. The Company's principal sources of funds are its operations and its amended and restated credit facility. The Company generated cash of approximately \$31.2 million in operations during the year ended December 31, 2019; 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 2020, 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 additional bank borrowings, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through the next twelve 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, 2019, 2018 and 2017. At December 31, 2019, 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, 2019:

	Payment Due By Period (in thousands) (1)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases (2)	\$ 3,284	\$ 1,173	\$ 2,075	\$ 36	\$ -
Total (3)	\$ 3,284	\$ 1,173	\$ 2,075	\$ 36	\$ -

- (1) The amounts set forth in the "Less than 1 Year" column represents amounts to be paid in 2020, the "1-3 Years" column represents amounts to be paid in 2021 and 2022, the "3-5 Years" column represents amounts to be paid in 2023 and 2024 and the "More than 5 Years" column represents amounts to be paid after 2024.
- (2) Represents scheduled payments for non-cancelable building lease commitments. See Note 15 to the accompanying Consolidated Financial Statements.
- (3) In addition, the Company incurs various purchase obligations in the ordinary course of business which relate to commitments to purchase materials, supplies, machinery and tooling.

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service the obligations listed above. The Company's principal sources of funds are its operations and its revolving credit facility. Although the Company generated cash from operations in the year ended December 31, 2019, it cannot guarantee that its operations will generate cash in future periods. Subject to the Risk Factors set forth in Part I, Item 1A of the Company's Annual Report on form 10-K for the year ended December 31, 2019 and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements contained in this Report, the Company believes that cash flow from operations will provide it with sufficient funds in order to fund its expected operations over the next twelve months.

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

OFF-BALANCE-SHEET ARRANGEMENTS

In addition to operating leases, the Company's off-balance-sheet arrangements include standby letters of credit which are included in the Company's revolving credit facility. As of December 31, 2019, there was approximately \$0.7 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies.

CRITICAL ACCOUNTING POLICIES

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

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements included in 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** 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, resulting 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. The Company recognizes revenue from bill and hold transactions at the time the specified goods are complete and available to the customer. In the ordinary course of business, the Company accepts sales returns from customers for defective goods, such amounts being immaterial. 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 year 2017, 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.

- **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. The Company last performed “step 1” of the goodwill impairment test as of December 31, 2018. 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 Company’s annual impairment testing date is December 31. The Company performed a qualitative assessment (“step 0”) as of December 31, 2019 and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company is not required to proceed to a “step 1” impairment assessment. Factors considered included the 2018 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

- **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, 2019.
- **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, 2019.

- **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, 2019, 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 0.25% to zero. Therefore, future operations could be affected by interest rate changes. As of December 31, 2019, the applicable interest rate was approximately 2.8%. 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 modified 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, 2019 and 2018, the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 13, 2020 expressed an unqualified opinion.

Change in accounting principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification (ASC) Topic 842, *Leases*.

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
We have served as the Company's auditor since 2005.
Boston, Massachusetts
March 13, 2020

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 (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2019, 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, 2019, 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, 2019, and our report dated March 13, 2020 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.

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
Boston, Massachusetts
March 13, 2020

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

DECEMBER 31

ASSETS	2019		2018	
Current assets:				
Cash and cash equivalents	\$	3,743	\$	3,238
Receivables, net		28,648		28,321
Inventories		18,276		19,576
Prepaid expenses		2,304		2,206
Refundable income taxes		279		2,285
Total current assets		53,250		55,626
Property, plant and equipment		116,089		111,779
Less accumulated depreciation and amortization		(59,350)		(54,112)
Net property, plant and equipment		56,739		57,667
Goodwill		51,838		51,838
Intangible assets, net		20,975		22,232
Non-qualified deferred compensation plan		2,775		2,034
Operating lease right of use assets		3,034		-
Other assets		147		201
Total assets	\$	188,758	\$	189,598
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$	4,577	\$	6,836
Accrued expenses		8,483		8,458
Deferred revenue		2,574		2,507
Operating lease liabilities		674		-
Current installments of long-term debt		-		2,857
Total current liabilities		16,308		20,658
Long-term debt, excluding current installments		-		22,286
Deferred income taxes		4,921		4,129
Non-qualified deferred compensation plan		2,788		2,044
Operating lease liabilities		2,416		-
Other liabilities		334		24
Total liabilities		26,767		49,141
Commitments and contingencies (Note 14)				
Stockholders' equity:				
Preferred stock, \$.01 par value, 1,000,000 shares authorized; no shares issued		-		-
Common stock, \$.01 par value, 20,000,000 shares authorized; 7,475,768 and 7,446,209 shares issued and outstanding, respectively at December 31, 2019; 7,415,002 and 7,385,443 shares issued and outstanding, respectively at December 31, 2018		74		74
Additional paid-in capital		30,952		29,168
Retained earnings		131,552		111,802
Treasury stock at cost, 29,559 shares at December 31, 2019 and 2018		(587)		(587)
Total stockholders' equity		161,991		140,457
Total liabilities and stockholders' equity	\$	188,758	\$	189,598

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

	2019	2018	2017
Net sales	\$ 198,381	\$ 190,455	\$ 147,843
Cost of sales	144,422	142,147	112,356
Gross profit	53,959	48,308	35,487
Selling, general and administrative expenses	29,251	27,654	23,724
Acquisition costs	—	1,089	—
Restructuring costs	—	—	63
(Gain) Loss on sales of property, plant and equipment	—	(47)	7
Operating Income	24,708	19,612	11,693
Interest income	—	47	216
Interest expense	(674)	(1,320)	(50)
Other (expense) income	(388)	64	—
Income before income tax provision	23,646	18,403	11,859
Income tax expense	3,896	4,092	2,649
Net income	\$ 19,750	\$ 14,311	\$ 9,210
Net income per common share outstanding:			
Basic	\$ 2.66	\$ 1.95	\$ 1.27
Diluted	\$ 2.63	\$ 1.93	\$ 1.26
Weighted average common shares outstanding:			
Basic	7,424	7,347	7,248
Diluted	7,516	7,430	7,337

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2019, 2018, and 2017

	Common Stock		Additional	Retained	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Stockholders' Equity
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
Share-based compensation	29	—	1,591	—	—	—	1,591
Exercise of stock options net of shares presented for exercise	45	—	705	—	—	—	705
Net share settlement of restricted stock units and stock option tax withholding	(13)	—	(512)	—	—	—	(512)
Net income	—	—	—	19,750	—	—	19,750
Balance at December 31, 2019	7,446	\$ 74	\$ 30,952	\$ 131,552	30	\$ (587)	\$ 161,991

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2019	2018	2017
Cash flows from operating activities:			
Net income from consolidated operations	\$ 19,750	\$ 14,311	\$ 9,210
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,172	7,831	5,635
(Gain) Loss on sales of property, plant and equipment	—	(47)	7
Share-based compensation	1,591	1,212	1,068
Deferred income taxes	792	1,881	(1,019)
Changes in operating assets and liabilities:			
Receivables, net	(327)	(2,556)	(132)
Inventories	1,300	(2,295)	1,288
Prepaid expenses	(98)	(249)	446
Refundable income taxes	2,006	(1,268)	(210)
Other assets	110	(76)	(228)
Accounts payable	(2,472)	1,113	93
Accrued expenses	25	1,472	974
Deferred revenue	67	35	91
Non-qualified deferred compensation plan and other liabilities	313	(44)	246
Net cash provided by operating activities	31,229	21,320	17,469
Cash flows from investing activities:			
Additions to property, plant and equipment	(5,778)	(5,428)	(10,382)
Acquisition of Dielectrics, net of cash acquired	—	(76,978)	—
Proceeds from sale of property, plant and equipment	4	77	7
Net cash used in investing activities	(5,774)	(82,329)	(10,375)
Cash flows from financing activities:			
Proceeds from advances on revolving line of credit	—	36,000	—
Payments on revolving line of credit	(8,000)	(28,000)	—
Proceeds from the issuance of long-term debt	—	20,000	—
Principal repayment of long-term debt	(17,143)	(2,857)	(856)
Proceeds from the exercise of stock options, net of shares presented for exercise	705	1,270	677
Payment of statutory withholding for stock options exercised and restricted stock units vested	(512)	(144)	(296)
Net cash (used in)/provided by financing activities	(24,950)	26,269	(475)
Net change in cash and cash equivalents	505	(34,740)	6,619
Cash and cash equivalents at beginning of year	3,238	37,978	31,359
Cash and cash equivalents at end of year	\$ 3,743	\$ 3,238	\$ 37,978

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 UFP Realty LLC, and its wholly-owned subsidiaries, UFP MA LLC, UFP CO LLC, UFP FL LLC, UFP TX LLC, UFP MI LLC, and UFP IA LLC. 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 the fair value of goodwill, 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, 2019 and 2018, the Company did not have any cash equivalents.

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, 2019, exceed the federal depository insurance limit by approximately \$4.7 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, 2019.

(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, 2019.

(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, 2019 that 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. The Company last performed "step 1" of the goodwill impairment test as of December 31, 2018. 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 the Company's actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

The Company's annual impairment testing date is December 31. The Company performed a qualitative assessment ("step 0") as of December 31, 2019 and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company was not required to proceed to a "step 1" impairment assessment. Factors considered included the 2018 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

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, 2019 that 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, resulting 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. The Company recognizes revenue from bill and hold transactions at the time the specified goods are complete and available to the customer. In the ordinary course of business, the Company accepts sales returns from customers for defective goods, such amounts being immaterial. 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 year 2017, 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 & administrative expenses as follows (in thousands):

	Years Ended December 31		
	2019	2018	2017
Share-based compensation expense	\$ 1,591	\$ 1,212	\$ 1,068

The compensation expense for stock options granted during the three-year period ended December 31, 2019, was determined as the fair value of the options using the Black Scholes valuation model. The assumptions are noted as follows:

	Years Ended December 31		
	2019	2018	2017
Expected volatility	28.9%	27.7%	27.4%-29.1%
Expected dividends	None	None	None
Risk-free interest rate	2.3%	2.7%	1.56%-1.84%
Exercise price	\$38.61	\$31.20	\$27.05-\$28.70
Expected term	6.0 years	6.0 years	2.7 to 5.8 years
Weighted-average grant-date fair value	\$12.70	\$10.15	\$5.59-\$8.51

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 \$653 thousand, \$544 thousand and \$525 thousand for the years ended December 31, 2019, 2018 and 2017, respectively.

(m) 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.

(n) 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.

(o) Segments and Related Information

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

(p) 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, 2019, 2018 and 2017.

(q) Research and Development

On a routine basis, the Company incurs costs related to research and development activity. These costs are expensed as incurred. Approximately \$9.5 million, \$10.5 million and \$5.0 million were expensed in the years ended December 31, 2019, 2018 and 2017, respectively.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, "Leases (Accounting Standards Codification (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 Company adopted ASC 842 on January 1, 2019. See Note 13 for further details.

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.

In June 2016, the FASB issued accounting standard that requires companies to utilize an impairment model (current expected credit loss, or CECL) for most financial assets measured at amortized cost and certain other financial instruments, which include, but are not limited to, trade and other receivables. This accounting standard will replace the incurred loss model under current GAAP with a model that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate those losses. Effective January 1, 2020, the Company adopted this standard. The adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

Revisions

Certain revisions have been made to the December 31, 2018 and 2017 Consolidated Statements of Income to conform to the current year presentation relating to a reclassification of material overcharge settlement to selling, general and administrative expenses. The reclassification resulted in the removal of the material overcharge settlement line item and a decrease in selling, general and administrative expenses of \$104 thousand and \$121 thousand for the years ended December 31, 2018 and 2017, respectively. These revisions had no impact on previously reported operating or net income and are deemed immaterial to the previously issued financial statements.

(2) Revenue Recognition

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 17 for further information regarding net sales by market):

	Years Ended December 31		
	2019	2018	2017
Net sales of:			
Products	\$ 193,016	\$ 183,186	\$ 146,275
Tooling and Machinery	2,730	4,302	1,181
Engineering services	2,635	2,967	387
Total net sales	\$ 198,381	\$ 190,455	\$ 147,843

Contract balances

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, or contract liabilities, included within "deferred revenue" on the condensed consolidated balance sheet.

The following table presents opening and closing balances of contract liabilities for the years ended December 31, 2019 and 2018 (in thousands):

	Contract Liabilities	
	Years Ended December 31	
	2019	2018
Deferred revenue - beginning of period	\$ 2,507	\$ 871
Acquired in Dielectrics business combination	—	2,175
Increases due to consideration received from customers	3,216	4,188
Revenue recognized	(3,149)	(4,727)
Deferred revenue - end of period	\$ 2,574	\$ 2,507

Revenue recognized during the years ended December 31, 2019 and 2018 from amounts included in deferred revenue at the beginning of the period were approximately \$1.7 million and \$0.6 million, respectively.

When invoicing occurs after revenue recognition, the Company has unbilled receivables (contract assets) included within "receivables" on the condensed consolidated balance sheet.

The following table presents opening and closing balances of contract assets for the years ended December 31, 2019 and 2018 (in thousands):

	Contract Assets	
	Years Ended December 31	
	2019	2018
Unbilled Receivables - beginning of period	\$ 65	\$ —
Increases due to revenue recognized - not invoiced to customers	831	301
Decrease due to customer invoicing	(824)	(236)
Unbilled Receivables - end of period	\$ 72	\$ 65

(3) Supplemental Cash Flow Information

	Years Ended December 31		
	2019	2018	2017
Cash paid for:			
		(in thousands)	
Interest	\$ 664	\$ 1,303	\$ 47
Income taxes, net of refunds	\$ 1,255	\$ 3,463	\$ 3,878
Non-cash investing and financing activities:			
Capital additions accrued but not yet paid	\$ 213	\$ 218	\$ 85

During the years ended December 31, 2019, 2018 and 2017, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock ("cashless" exercises) totaling approximately \$0, \$0 and \$172 thousand, respectively.

(4) Receivables

Receivables consist of the following (in thousands):

	December 31	
	2019	2018
Accounts receivable—trade	\$ 29,134	\$ 28,885
Less allowance for doubtful receivables	(486)	(564)
Receivables, net	\$ 28,648	\$ 28,321

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 net reversal of the provision for doubtful accounts of approximately \$52 thousand and \$50 thousand the years ended December 31, 2019 and 2018, respectively.

(5) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2019	2018
Raw materials	\$ 10,540	\$ 11,727
Work in process	2,279	2,521
Finished goods	5,457	5,328
Total Inventory	\$ 18,276	\$ 19,576

(6) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2019 and 2018, are as follows (in thousands):

December 31, 2019	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	(70)	(177)	(2,162)	(2,409)
Net balance	\$ 297	\$ 285	\$ 20,393	\$ 20,975
December 31, 2018	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

Amortization expense related to intangible assets was approximately \$1.3 million, \$1.2 million, and \$0.3 million for the years ended December 31, 2019, 2018 and 2017, respectively. The estimated remaining amortization expense as of December 31, 2019 is as follows (in thousands):

2020	\$ 1,257
2021	1,257
2022	1,257
2023	1,172
2024	1,164
Thereafter	14,868
Total	\$ 20,975

(7) Property, Plant and Equipment

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

	December 31	
	2019	2018
Land and improvements	\$ 3,191	\$ 3,191
Buildings and improvements	35,502	35,187
Leasehold improvements	3,022	2,843
Machinery & equipment	66,438	62,440
Furniture, fixtures, computers & software	6,414	7,119
Construction in progress	1,522	999
	\$ 116,089	\$ 111,779

Depreciation and amortization expense of Property, Plant and Equipment for the years ended December 31, 2019, 2018 and 2017, were approximately \$6.9 million, \$6.6 million, and \$5.3 million, respectively.

(8) Indebtedness

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, as well as 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, 2019, the applicable interest rate was approximately 2.8% and the Company was in compliance with all covenants under the Amended and Restated Credit Agreement.

Included in the Amended and Restated Credit Facilities were approximately \$0.7 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	
	2019	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 used 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. Derivative financial instruments expose the Company 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 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 exposed the Company to variability in interest payments due to changes in interest rates. The Company believed that it was 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 modified 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 \$14,285,712 at December 31, 2019. The fair value of the swap as of December 31, 2019 was approximately \$(325) thousand and is included in other liabilities. Changes in the fair value of the swap are recorded in other income/expense and resulted in expense of approximately \$388 thousand and income of \$64 thousand during the years ended December 31, 2019 and 2018, respectively.

During the fourth quarter of 2019, the Company paid the remaining balance of the term loan in its entirety. As a result, there is no longer underlying debt to hedge against with the swap. The changes in the fair value of the swap will continue to be accounted for as a financial instrument until the sooner of the time that the Company elects to cancel it or until its maturity.

(9) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2019	2018
Compensation	\$ 3,961	\$ 3,542
Benefits/self-insurance reserve	1,033	1,153
Paid time off	1,315	1,131
Other	2,174	2,632
	\$ 8,483	\$ 8,458

(10) Income Tax

The Company's income tax provision for the years ended December 31, 2019, 2018 and 2017 consists of the following (in thousands):

	Years Ended December 31		
	2019	2018	2017
Current:			
Federal	\$ 2,920	\$ 1,772	\$ 3,117
State	185	439	551
	3,105	2,211	3,668
Deferred:			
Federal	485	1,917	(1,091)
State	306	(36)	72
	791	1,881	(1,019)
Total income tax provision	\$ 3,896	\$ 4,092	\$ 2,649

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	
	2019	2018
Deferred tax assets:		
Reserves	\$ 362	\$ 367
Inventory capitalization	396	421
Compensation programs	578	447
Retirement liability	—	2
Equity-based compensation	403	290
Lease liability	795	11
Intangible assets	73	141
State tax credits, net of federal impact	274	257
Gross deferred tax assets	2,881	1,936
Valuation allowance	(136)	—
Net deferred tax assets	\$ 2,745	\$ 1,936
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	\$ (4,877)	\$ (4,668)
Goodwill	(2,008)	(1,397)
Right of use asset	(781)	—
Total deferred tax liabilities	(7,666)	(6,065)
Net long-term deferred tax liabilities	\$ (4,921)	\$ (4,129)

The amounts recorded as deferred tax assets as of December 31, 2019 and 2018, 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 gross deferred tax assets of approximately \$2.9 million at December 31, 2019, 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 provided a valuation allowance of approximately \$136 thousand for deferred tax assets (net of federal tax benefit), primarily related to tax credits generated in its 2018 Massachusetts state income tax return that are being carried forward to future periods. The Company is uncertain as to whether it will have sufficient future taxable income in Massachusetts to utilize the credits prior to their expiration date. The valuation allowance against the Company's deferred tax assets may require adjustments in the future based on changes in the mix of temporary difference, changes in tax laws, and operating performance.

The Company has approximately \$348 thousand of tax credit carryforwards related to one state jurisdiction that expire between 2020 and 2033.

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		
	2019	2018	2017
Computed "expected" tax rate	21.0%	21.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	1.8	2.8	3.5
Meals and entertainment	0.2	0.2	0.3
Tax credits	(6.2)	(1.9)	(0.6)
Domestic production deduction	—	—	(2.6)
Non-deductible ISO stock option expense	—	0.1	0.1
Unrecognized tax benefits	(0.7)	—	—
Excess tax benefits on equity awards	(0.7)	(1.3)	(1.4)
Excess compensation	0.6	0.8	—
Impact on deferred taxes of new legislation	—	—	(11.1)
Other	0.4	0.5	0.1
Change in valuation allowance	0.1	—	—
Effective tax rate	16.5%	22.2%	22.3%

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 2017. Federal and state tax returns for the years 2016 through 2019 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	
	2019	2018
Gross UTB balance at beginning of fiscal year	\$ 150	\$ 150
Reductions for tax positions of prior years	(150)	—
Gross UTB balance at end of fiscal year	\$ —	\$ 150

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2019 and 2018 is \$0 and \$150 thousand, respectively.

In addition, the total amount of accrued interest and penalties on uncertain tax positions at December 31, 2019 and 2018 is \$0 and \$153 thousand, respectively.

At December 31, 2018, all of the unrecognized tax benefits related 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.

(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		
	2019	2018	2017
Basic weighted average common shares outstanding during the year	7,424	7,347	7,248
Weighted average common equivalent shares due to stock options and restricted stock units	92	83	89
Diluted weighted average common shares outstanding during the year	7,516	7,430	7,337

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, 2019, 2018 and 2017, the number of stock awards excluded from the computation was 16,536, 10,344 and 27,336, 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):

Years Ended December 31

Share-based compensation related to:	2019	2018	2017
Common stock grants	\$ 400	\$ 505	\$ 505
Stock option grants	151	149	138
Restricted Stock Unit awards	1,040	558	425
Total share-based compensation	\$ 1,591	\$ 1,212	\$ 1,068

Incentive Plan

In June 2003, the Company formally adopted the 2003 Incentive Plan (the "Plan"). As amended and restated to date, the Plan is intended to benefit the Company by offering equity-based and other incentives to certain of the Company's executives and employees who are in a position to contribute to the long-term success and growth of the Company, thereby encouraging the continuance of their involvement with the Company and/or its subsidiaries.

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, 2019, 1,252,613 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 108,424 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, 2019, 185,000 options have been granted and 10,000 options are outstanding. At December 31, 2019, 803,244 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, 2019, 365,026 options have been granted and 95,614 options are outstanding. For the year ended December 31, 2019, 5,442 RSUs are being reserved for outstanding grants of RSUs, and 79,648 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, 2018	134,043	\$ 20.46	—	—
Granted	16,536	38.61	—	—
Exercised	(44,965)	15.68	—	—
Outstanding December 31, 2019	105,614	\$ 25.34	5.70	\$ 2,563
Exercisable at December 31, 2019	85,328	\$ 22.62	5.10	\$ 2,303
Vested and expected to vest at December 31, 2019	105,614	\$ 25.34	5.70	\$ 2,563

During the years ended December 31, 2019, 2018 and 2017, 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 \$1.0 million, \$1.2 million and \$0.6 million, respectively, and the total amount of consideration received from the exercise of these options was approximately \$0.7 million, \$1.3 million and \$0.8 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 years ended December 31, 2019 and 2018, no shares were surrendered for this purpose. During the year ended December 31, 2017, 6,511 shares were surrendered to pay the exercise price at an average market price of \$26.45.

On February 19, 2019, the Company's Compensation Committee approved the award of \$400 thousand 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, 2019.

On June 5, 2019 the Company issued 16,536 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, 2019:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2018	72,996	\$ 23.60
Awarded	64,701	33.55
Shares vested	(20,529)	23.74
Forfeitures	(3,302)	33.31
Outstanding at December 31, 2019	113,866	\$ 28.36

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, 2019, 8,341 shares were redeemed for this purpose at an average market price of \$33.69. During the years ended December 31, 2018 and 2017, 5,238 and 4,377 shares were redeemed for this purpose at an average market price of \$27.60 and \$24.50, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2019, vest (in thousands):

	Options	Restricted Stock Units	Total
2020	\$ 116	\$ 999	\$ 1,115
2021	—	746	746
2022	—	409	409
2023	—	48	48
Total	\$ 116	\$ 2,202	\$ 2,318

(13) Leases

The Company adopted ASC 842 - Leases ("ASC 842") as of January 1, 2019, using the transition method wherein entities could initially apply the new leases standard at adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Accordingly, all periods prior to January 1, 2019 were presented in accordance with the previous ASC Topic 840, Leases, and no retrospective adjustments were made to the comparative periods presented. The adoption of ASC 842 resulted in an increase to total assets due to the recording of operating lease right-of-use ("ROU") assets and operating lease liabilities of approximately \$4.0 million and \$4.1 million, respectively, as of January 1, 2019. The Company did not have any finance leases at the adoption date. The adoption did not materially impact the Company's condensed consolidated statements of income or cash flows.

The Company has operating leases for offices, manufacturing plants, vehicles and certain office and manufacturing equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company has elected the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component, thus causing all fixed payments to be capitalized. The Company also elected the package of practical expedients permitted within the new standard, which among other things, allows the Company to carry forward historical lease classification. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage, are not included in the ROU assets or operating lease liabilities. These are expensed as incurred and recorded as variable lease expense. The Company determines if an arrangement is a lease at the inception of a contract. Operating lease ROU assets and operating lease liabilities are stated separately in the condensed consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at commencement date based on the net present value of fixed lease payments over the lease term. The Company's lease term includes options to extend or terminate the lease when it is reasonably certain that we will exercise that option. ROU

assets will also be adjusted for any deferred or accrued rent. As the Company's operating leases do not typically provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company's incremental borrowing rate is based on its borrowing rate under the Amended and Restated Credit Agreement, adjusted to reflect an estimated fixed rate for the term of the underlying lease. Operating fixed lease expense is recognized on a straight-line basis over the lease term.

	Year Ended December 31, 2019 (\$ in thousands)
Lease cost:	
Operating	\$ 1,222
Variable	219
Short-term	27
Total lease cost	\$ 1,468
Cash paid for amounts included in measurement of lease liabilities:	
Operating	\$ 1,208
Weighted-average remaining lease term (years):	
Operating	2.69
Weighted-average discount rate:	
Operating	4.45%

The aggregate future lease payments for operating leases as of December 31, 2019 were as follows (in thousands):

2020	\$ 1,173
2021	1,118
2022	957
2023	36
2024	—
Thereafter	—
Total lease payments	3,284
Less: interest	(194)
Present value of lease liabilities	\$ 3,090

The aggregate future lease payments for operating leases as of December 31, 2018 were as follows (in thousands):

2019	\$ 1,051
2020	1,070
2021	1,063
2022	975
2023	36
Total	\$ 4,195

Rent expense amounted to approximately \$1.2 million, \$1.2 million, and \$0.9 million, in 2019, 2018 and 2017, respectively.

(14) 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. See Note 13 for details on lease commitments.
- (b) **Legal** - From time to time, the Company may be a party to various suits, claims and complaints arising in the ordinary course of business. In the opinion of management of the Company, these suits, claims and complaints should not result in final judgments or settlements that, in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

(15) Employee Benefit 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 to the Plan were approximately \$1.0 million, \$1.1 million and \$0.8 million for the years 2019, 2018 and 2017, 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 thousand 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.

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, 2019 and 2018, the balance of the deferred compensation liability totaled approximately \$2.8 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 \$2.8 million and \$2.0 million as of December 31, 2019 and 2018, respectively.

(16) Fair Value of Financial Instruments

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

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

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

Level 3 – Valued based on management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the 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, 2019
Assets:	
Derivative financial instruments	\$ (325)

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.

(17) Segment Data

The Company consists of a single operating and reportable segment.

Revenues from customers outside of the United States are not material. No customer comprised more than 10% of the Company's consolidated revenues for the year ended December 31, 2019. A vast majority of the Company's assets are located in the United States.

The Company's custom products are primarily sold to customers within the Medical, Automotive, Consumer, Aerospace and Defense, Industrial, and Electronics markets. Sales by market for the years ended December 31, 2019, 2018 and 2017 are as follows (in thousands):

Market	2019		2018		2017	
	Net Sales	%	Net Sales	%	Net Sales	%
Medical	\$ 128,915	65.0%	\$ 110,282	57.9%	\$ 70,090	47.4%
Automotive	20,004	10.1%	20,022	10.5%	23,119	15.6%
Consumer	17,669	8.9%	24,989	13.1%	21,328	14.4%
Aerospace & Defense	13,778	6.9%	13,130	6.9%	11,521	7.8%
Industrial	9,607	4.8%	10,579	5.6%	9,826	6.6%
Electronics	8,408	4.2%	11,453	6.0%	11,959	8.1%
Net Sales	\$ 198,381	100.0%	\$ 190,455	100.0%	\$ 147,843	100.0%

Certain amounts for the years ended December 31, 2018 and 2017 were reclassified between markets to conform to the current year presentation.

(18) Quarterly Financial Information (unaudited)

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

2019	Q1	Q2	Q3	Q4
Net sales	\$ 47,328	\$ 51,399	\$ 49,394	\$ 50,260
Gross profit	12,497	14,371	13,321	13,770
Net income	3,734	4,598	5,641	5,777
Basic net income per share	0.50	0.62	0.76	0.78
Diluted net income per share	0.50	0.62	0.75	0.76
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

(19) 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 thousand 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):

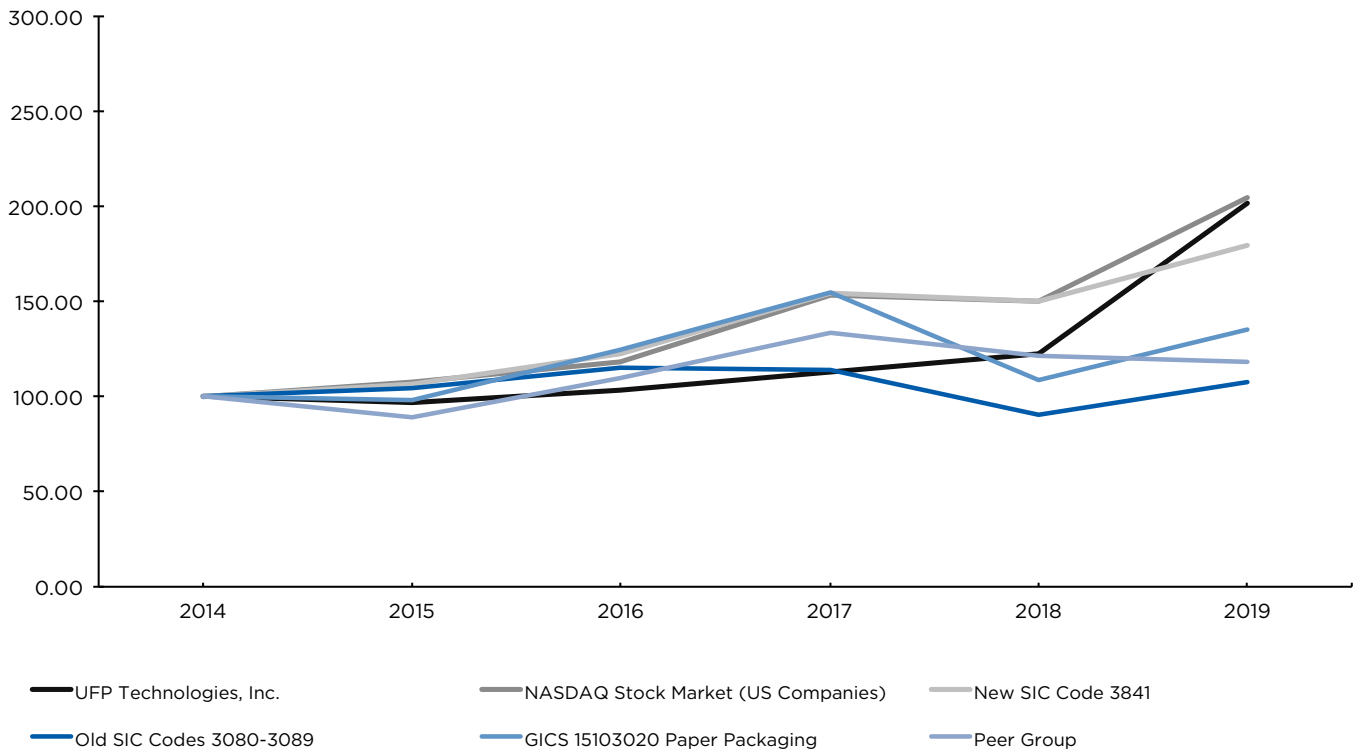
	Years Ended December 31	
	2018	2017
	(Unaudited)	(Unaudited)
Sales	\$ 193,510	\$ 180,419
Operating income	\$ 19,464	\$ 18,990
Net income	\$ 14,110	\$ 13,126
Earnings per share:		
Basic	\$ 1.92	\$ 1.81
Diluted	\$ 1.90	\$ 1.79

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.

STOCK PERFORMANCE GRAPH

The following graph compares cumulative total stockholder return on our Common Stock since December 31, 2014 with the cumulative total return of the (1) NASDAQ Stock Market (US Companies), (2) SIC Codes 3080-3089 Miscellaneous Plastic Products, (3) SIC Code 3841 Surgical and Medical Instruments and Apparatus, (4) GICS 15103020 Paper Packaging and (5) the Company's peer group, as determined by Radford, a national compensation consulting company engaged by our Compensation Committee in 2018 to perform a comprehensive comparative market study of the compensation programs offered to peer company executives and directors, as described in our Proxy Statement for our 2020 Annual Meeting of Stockholders. This graph assumes the investment of \$100 on December 31, 2014 in our Common Stock, and for comparison the companies that comprise each of (1) the NASDAQ Stock Market, (2) SIC Codes 3080-3089 Miscellaneous Plastic Products, (3) SIC Code 3841 Surgical and Medical Instruments and Apparatus, (4) GICS 15103020 Paper Packaging and (5) the Company's peer group, as described above, and that all dividends were reinvested. Measurement points are the last trading day of each respective fiscal year. The Company's change to SIC Code 3841 was approved by the SEC on December 4, 2019.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
 ASSUMES INITIAL INVESTMENT OF \$100
 DECEMBER 2019



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; statements about the impact the COVID-19 pandemic may have on the Company's business, including the demand for its products, the Company's efforts to address the pandemic, including regarding the safety of its employees, and the impact of the pandemic on the businesses of the Company's suppliers and customers; statements about the Company's acquisition strategies and opportunities and the Company's growth potential and strategies for growth; statements about the Company's reorganization efforts involving its Medical Technology Group and its Advanced Components Group, and the anticipated benefits of such reorganization; expectations about shifting the Company's book of business to higher-margin, longer-run opportunities; anticipated trends and potential advantages in the different markets in which the Company competes, including the medical, aerospace and defense, automotive, consumer, electronics, and industrial markets, and the Company's plans to expand in certain of its markets; expectations regarding customer demand; anticipated advantages the Company expects to realize from its investments and capital expenditures; anticipated advantages to improvements and alterations at the Company's existing plants; expectations regarding the Company's manufacturing capacity, operating efficiencies, and new production equipment; statements about new product offerings and program launches; statements about the Company's acquisition and integration of Dielectrics and the synergies and other benefits anticipated in connection with the Dielectrics business; the Company's participation and growth in multiple markets; its business opportunities; expectations regarding the Company's liquidity, including the availability of borrowing capacity to fund potential future acquisitions; anticipated revenues and the timing of such revenues; and any indication that the Company may be able to sustain or increase its sales, earnings or earnings per share, or its sales, earnings or earnings per share growth rates. Investors are cautioned that such forward-looking statements involve risks and uncertainties, including without limitation risks and uncertainties associated with the COVID-19 pandemic and its impact on the Company, including demand for its products, the Company's employees, and the Company's suppliers and customers; the Company's acquisition and integration of Dielectrics; risks associated with the identification of suitable acquisition candidates and the successful, efficient execution of acquisition transactions, the integration of any such acquisition candidates, the value of those acquisitions to our customers and shareholders, and the financing of such acquisitions; risks associated with corporate reorganizations and our creation of the Medical Technology and Advanced Components Groups; risks associated with efforts to shift the Company's book of business to higher-margin, longer-run opportunities; risks associated with the Company's entry into and growth in certain markets; risks and uncertainties associated with seeking and implementing manufacturing efficiencies and implementing new production equipment; risks and uncertainties associated with growth of the Company's business and increases to sales, earnings and earnings per share; risks associated with new product and program launches, and risks related to our indebtedness and compliance with covenants contained in our financing arrangements . 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 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, 2019. 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 virtually at 10:00 a.m., on June 10, 2020.

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, 2019, 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 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
KPMG LLP*

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
and General Manager, Medical*

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

W. David Smith **o**
*Sr. Vice President
Operational Excellence
& Shared Services*

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.

