

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended December 31, 2019**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-12648**

**UFP Technologies, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**04-2314970**

(I.R.S. Employer  
Identification No.)

**100 Hale Street, Newburyport, MA – USA**

(Address of principal executive offices)

**01950-3504**

(Zip Code)

**(978) 352-2200**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	UFPT	The NASDAQ Stock Market L.L.C.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  
Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$279,729,924, based on the closing sales price of \$41.61 per share of such stock on the NASDAQ Capital Market on June 28, 2019.

As of March 5, 2020, there were 7,463,260 shares of common stock, \$0.01 par value per share, of the registrant outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

<u>Document</u>	<u>Parts of this Form 10-K Into Which Incorporated</u>
Portions of the registrant's Proxy Statement for the 2020 Annual Meeting of Shareholders.	Part III

## **PART I**

### **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 (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). 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 Company's acquisition strategies and opportunities and the Company's growth potential and strategies for growth, anticipated trends in the different markets in which the Company competes, including the medical, automotive, aerospace and defense, consumer, electronics and industrial markets, expectations about shifting the Company's book of business to higher-margin opportunities, expectations regarding the duration and extent of slowdowns in demand in certain segments, expectations regarding customer demand, anticipated advantages the Company expects to realize from its investments and capital expenditures, expectations regarding the Company's manufacturing capacity, operating efficiencies, and new production equipment, statements about new product offerings and program launches and the expected timing thereof, statements about the Company's acquisition and integration of Dielectrics and the synergies, customer opportunities and other benefits anticipated in connection with the Dielectrics business and products, the Company's participation and growth in multiple markets, its business opportunities, expectations regarding the Company's liquidity, 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 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 financing of such acquisitions and the integration of any acquisition candidates, risks associated with increasing manufacturing capacity and efficiencies, and new production equipment of the Company, risks associated with efforts to shift the Company's book of business to higher-margin opportunities, risks associated with slowdowns in demand, risks and uncertainties associated with the anticipated growth of the Company's business and increases to sales, earnings and earnings per share, the risk that the Company may not be able to finalize anticipated new customer and vendor contracts, 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.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," and similar expressions intended to identify forward-looking statements. Our actual results could be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts, and projections, and may be materially better or worse than anticipated. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date of this Report. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this Report, in order to reflect changes in circumstances or expectations, or the occurrence of unanticipated events, except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under "Risk Factors" set forth in Part I Item 1A of this Report, as well as the risks and uncertainties discussed elsewhere in this Report. We qualify all of our forward-looking statements by these cautionary statements. 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.

Unless the context requires otherwise, the terms "we", "us", "our", or "the Company" refer to UFP Technologies, Inc. and its consolidated subsidiaries.

### **ITEM 1. BUSINESS**

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 an important link in the medical device supply chain and a valued outsource partner to many of the top medical device manufacturers in the world. The Company's single-use and single-patient devices and components are used in a wide range of medical devices, disposable wound care products, infection prevention, minimally invasive surgery, wearables, orthopedic soft goods, and orthopedic implant packaging.

The Company is diversified by also providing highly engineered products and components to customers in the automotive, aerospace and defense, consumer, electronics and industrial markets. Typical applications of its products include military uniform and gear components, automotive interior trim, athletic padding, environmentally friendly protective packaging, air filtration, abrasive nail files, and protective cases and inserts.

The Company was incorporated in the State of Delaware in 1993.

The consolidated financial statements of the Company include the accounts and results of operations of UFP Technologies, Inc. and its wholly-owned subsidiaries, Dielectrics, Inc. ("Dielectrics"), Moulded Fibre Technology, Inc., Simco Industries, Inc., and UFP Realty LLC ("UFP Realty"), and UFP Realty's wholly-owned subsidiaries, UFP MA, LLC, UFP CO, LLC, UFP FL, LLC, UFP TX, LLC, UFP MI, LLC, and UFP IA, LLC. All significant inter-company balances and transactions have been eliminated in consolidation. The vast majority of the Company's assets are located within the United States. FlexShield®, FirmaLite®, Winepacks®, BioShell®, T-Tubes®, Tri-Covers®, Erasables®, Design Nail®, Pro-Sticks®, Cryoshell® Case Fit®, and Mambo® are our U.S. registered trademarks. Each trademark, trade name, or service mark of any other company appearing in this Report belongs to its respective holder.

### Available Information

The Company's Internet website address is <http://www.ufpt.com>. Through its website, the Company makes available, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). These SEC reports can be accessed through the investor relations section of the Company's website. The information found on the Company's website is not part of this or any other report filed with or furnished to the SEC. You may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy and information statements, and other information regarding the Company and other issuers that file electronically with the SEC. The SEC's Internet website address is <http://www.sec.gov>.

### Market Overview

The applications for the Company's products are numerous and diverse. The Company sells its products into distinct markets with its primary focus on the Medical market:

- **Medical** – The global medical market is large, growing, and varied but the Company targets specific segments where its access to highly specialized materials combined with its design and manufacturing expertise helps customers differentiate products, minimize the patient's risk of infection, improve patient outcomes, and increase their client's speed to market. The product segments include: infection prevention, medical devices, orthopedics, wound care, surgical instruments, diagnostics, and biopharma.
- **Automotive** - Automotive companies are challenged with creating quieter, safer and more efficient vehicles. The Company partners with OEMs, Tier 1 suppliers, and its own material manufacturers to develop customized solutions to solve automakers' biggest challenges.
- **Aerospace** – The Company primarily targets commercial aircraft manufacturers to address the need for improved safety, better fuel economy, lower emissions, and overall passenger comfort.

- **Defense** – As a long-time supplier to military defense contractors and law enforcement, the Company provides highly innovative solutions to ensure soldier safety, improve comfort, and protect mission critical equipment.
- **Consumer & Electronics** – The Company manufactures protective packaging for large and fragile consumer products. The rise of direct-to-consumer shipping as well as a need for environmentally friendly packaging has increased demand for the company's molded fiber products. For the sports and leisure segment, the Company is an innovator in comfort cushioning for helmets and other protective gear.
- **Industrial** – The applications for the Company's industrial products are highly diverse. Examples include air and liquid filters, tool control cases, insulation, seals, and gaskets.

## Products

The Company's custom products are targeted at macro market trends and create specific opportunities in niche segments where the Company's access to specialty materials, engineering know-how, and processing expertise can be leveraged to create value for its customers. Examples of its custom products targeted to specific markets include:

- **Medical** – Single patient use surfaces, advanced wound care, infection prevention, disposables for surgical procedures, endoscopic procedures, orthopedic implants, orthopedic appliances, biopharma drug manufacturing. In general, the Company's solutions are all aimed at improving treatment outcomes while reducing risk and cost.
- **Automotive** – Molded components designed to make cars lighter (therefore more fuel efficient), quieter, and safer. Applications include load floors, sun shades, SUV cargo cover handles, driveshaft damping, engine & manifold covers, acoustic insulation, quarter panels and wheel liners.
- **Aerospace** – Molded composites for commercial aviation to make planes lighter and safer. The Company is focused on specialty foam (PVDF) tubing for a leader in the industry.
- **Defense** - Molded composites for military gear to improve the safety and comfort of soldiers. Applications include backpack components, knee and elbow pads, eyewear, and helmets.
- **Consumer and Electronic Packaging** – 100% recycled protective packaging for B2C brands primarily focused on electronics, candles, wine, and other high-volume consumer products using the "next day" carrier infrastructure.
- **Specialty Case Solutions** – Reusable cases and custom inserts to quickly and safely deploy high-end, customized product solutions. Applications include military equipment and high-value commercial electronics.

## Regulatory Climate and Environmental Considerations

The Company's medical customers typically require FDA approval for their products and therefore sometimes require their suppliers to manufacture in facilities that are FDA approved and comply with the ISO 13485 quality standard for medical devices. The Company has seven manufacturing locations that are ISO 13485 certified and four that are FDA approved. The Company's automotive customers sometimes require their suppliers to certify their manufacturing locations to the IATF 16949 automotive quality standard. The Company's Grand Rapids, MI facility meets this requirement. The Company's molded fiber packaging operation manufactures environmentally friendly and sustainable products made primarily from post-consumer newsprint and water. As a further commitment to protecting the environment, the Clinton, IA and El Paso, TX operations are certified to ISO 14001, an international environmental standard. The packaging industry has been subject to user, industry, and legislative pressure to develop environmentally responsible packaging alternatives that reduce, reuse, and recycle packaging materials. Government authorities have enacted legislation relating to source reduction, specific product bans, recycled content, recyclability requirements, and "green marketing" restrictions. In order to provide packaging that complies with all regulations regardless of a product's destination, manufacturers seek packaging materials that meet both environmentally-related demands and performance specifications. Some packaging manufacturers have responded by reducing

product volume and ultimate waste product disposal through reengineering traditional packaging solutions; adopting new manufacturing processes; participating in recovery and reuse systems for resilient materials that are inherently reusable; creating programs to recycle packaging following its useful life; and developing materials that use a high percentage of recycled content in their manufacture. Wherever feasible, the Company aims to employ one or more of these techniques to create environmentally-responsible packaging solutions. In addition to offering molded fiber packaging products made from recycled paper derived primarily from post-consumer newspaper waste, the Company actively promotes its philosophy of reducing product volume and resulting post-user product waste. The Company designs products to provide optimum performance with minimum material. In addition, the Company bales and disposes of certain of its urethane foam scrap for use in the carpeting industry. The Company's Newburyport, MA facility utilizes solar power to provide approximately 13% of its electricity, with plans to increase capacity in the future. The Company is aware of public support for environmentally-responsible packaging and products. Future government action may impose restrictions affecting the industry in which the Company operates. There can be no assurance that any such action will not adversely impact the Company's products and business.

## **Marketing and Sales**

The Company markets to the target industries it serves by promoting specific solutions, materials, and manufacturing capabilities and services. The Company is marketed through websites, trade shows and expositions, social media, online advertising, and press releases. Its relationships with key material suppliers are also an important part of its marketing and sales efforts. The Company markets and sells its products in the United States principally through a direct sales force. The Company also uses independent manufacturer representatives to sell its products. The Company's sales people, in conjunction with Company engineers, collaborate with customers and in-house design and manufacturing experts to develop custom-engineered solutions on a cost-effective basis. For the year ended December 31, 2019, no one customer's sales exceeded 10% of total sales. Seasonality is not a major factor in the Company's sales. See the Company's consolidated financial statements contained in Part IV, Item 15, of this Report for net sales by market.

## **Working Capital**

The Company funds its business operations through a combination of available cash and cash equivalents, and cash generated from operations. In addition, the Company's revolving credit facility is available for additional working capital needs.

## **Manufacturing**

The Company's manufacturing operations consist primarily of cutting, routing, molding, vacuum-forming, laminating, radio frequency and impulse welding and assembling. For medical custom-molded foam products and thermoplastic welded devices, the Company's skilled engineering personnel analyze specific customer requirements to design and build prototype products to determine product functionality. Upon customer approval, prototypes are converted to final designs for commercial production runs. Molded cross-linked foam products are produced in a thermoforming process using heat, pressure, and precision metal tooling. Plastics and other materials are sealed using radio frequency and impulse welding. Reticulated polyurethane foam is also used for many high-performance medical products requiring precision fluid or air management. These products are typically fabricated using high speed die-cutting or waterjet cutting. Laminated products for medical, military, and personal comfort and protection are produced through a process whereby the foam medium is heated to the melting point. The heated foam is then typically bonded to a non-foam material through the application of mechanical pressure.

The Company also engineers components for automotive use as interior trim and structural applications. These components are produced using a compression molding process to create highly functional composites consisting of various materials such as polypropylene/fiberglass panels, nonwovens, and fabrics. Highly specialized polypropylene based nonwoven material is used for automotive interior noise reduction and is fabricated using a die cut process. Foam for packaging, filtration, acoustical, and thermal insulation products that do not utilize cross-linked foam are fabricated by cutting shapes from blocks of foam, using specialized cutting tools, routers, water jets, and hot wire equipment, and assembling these shapes into the final product using a variety of foam welding or gluing techniques. Products can be used on a stand-alone basis or bonded to another foam product or other material such as a corrugated medium.

Molded fiber products are manufactured by vacuum-forming a pulp of recycled or virgin paper materials onto custom-engineered molds. With the application of vacuum and air, the molded parts are pressed and transferred to an in-line dryer, from which they exit ready for packing or subsequent value-added operations. The Company does not manufacture any of the raw materials used in its products. With the exception of certain grades of cross-linked foam and technical polyurethane foams, these raw materials are available from multiple supply sources. Although the Company relies upon a limited number of suppliers for cross-linked and technical polyurethane foams, the Company's relationships with its suppliers are good, and the Company expects that these suppliers will be able to meet its requirements for these foams. Any delay or interruption in the supply of raw materials could have a material adverse effect on the Company's business.

## **Research and Development**

The Company's engineering personnel continuously explore design and manufacturing techniques, as well as new and innovative materials to meet the unique demands and specifications of its customers. Because the Company's products tend to have relatively short life cycles, research and development is an integral part of the Company's ongoing cost structure.

## **Competition**

The medical contract manufacturing industry is highly competitive as is the foam and plastics converting industry as a whole. While there are several national companies that convert foam and plastics, the Company's primary competition is from smaller independent regional manufacturing companies. These companies generally market their products in specific geographic areas from neighboring facilities. In addition, the Company's foam and fiber packaging products compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The Company's custom engineered products face competition primarily from smaller companies that typically concentrate on production of products for specific industries. The Company expects to compete effectively in the engineered products market due to its ability to address its customers' primary vendor selection criteria, including price, product performance, product reliability, and customer service, as well as its access to a wide variety of materials, its engineering expertise, its ability to combine foams with other materials such as plastics and laminates, and its ability to manufacture products in a clean room environment.

## **Patents and Other Proprietary Rights**

The Company relies upon trade secrets, patents, and trademarks to protect its technology and proprietary rights. The Company believes the improvement of existing products, reliance upon trade secrets and unpatented proprietary know-how, and the development of new products are generally as important as patent protection in establishing and maintaining a competitive advantage. Nevertheless, the Company has obtained patents and may continue to make efforts to obtain patents, when available, although there can be no assurance that any patent obtained will provide substantial protection or be of commercial benefit to the Company, or that its validity will be upheld if challenged. The Company has a total of 18 active patents relating to technologies including foam, packaging, tool control technologies, radio frequency welding, automotive superforming processes and to certain nail file technologies. The Company also has patent applications in process. There can be no assurance that any patent or patent application will provide significant protection for the Company's products and technology or will not be challenged or circumvented by others. The expiration dates for the Company's patents range from 2021 through 2038.

## **Backlog**

The Company's backlog, as of February 21, 2020 and February 22, 2019, totaled approximately \$54.3 million and \$53.8 million, respectively. The backlog consists of purchase orders for which a delivery schedule within the next twelve months has been specified by customers. Orders included in the backlog may generally be canceled or rescheduled by customers without significant penalty. The backlog as of any particular date should not be relied upon as indicative of the Company's revenues for any period as it includes customer blanket purchase orders that are non-binding.

## **Employees**

As of January 25, 2020, the Company had a total of 986 full-time employees (as compared to 1051 full-time employees as of January 26, 2019) and 168 temporary employees (as compared to 112 temporary employees at January 26, 2019). The Company is not a party to any collective bargaining agreements. The Company considers its employee relations to be good.

## **ITEM 1A. RISK FACTORS**

You should carefully consider the risks described below and the other information in this Report before deciding to invest in shares of our common stock. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties occurs, our business, financial condition and operating results would likely suffer. In that event, the market price of our common stock could decline, and you could lose all or part of your investment.

**We depend on a small number of customers for a large percentage of our revenues. The loss of any such customer, a reduction in sales to any such customer, or the decline in the financial condition of any such customer could have a material adverse effect on our business, financial condition, and results of operations.**

A limited number of customers typically represent a significant percentage of our revenues in any given year. Our top ten customers represented approximately 34.7%, 29.3%, and 28.9% of our total revenues in 2019, 2018, and 2017, respectively. No one customer's sales exceeded 10% of total sales for the year ended December 31, 2019. The loss of a significant portion of our expected future sales to any of our large customers would have a material adverse effect on our business, financial condition, and results of operations. Likewise, a material adverse change in the financial condition of any of these customers could have a material adverse effect on our ability to collect accounts receivable from any such customer.

**Our business could be harmed if our products contain undetected errors or defects or do not meet applicable specifications.**

We are continuously developing new products and improving our existing products. Our existing and newly introduced products can contain undetected errors or defects. In addition, these products may not meet their performance specifications under all conditions or for all applications. If, despite internal testing, and testing by customers, any of our products contain errors or defects or fail to meet applicable specifications, then we may be required to enhance or improve those products or technologies. We may not be able to do so on a timely basis, if at all, and may only be able to do so at considerable expense. If a particular error or defect is repeated throughout our mass production process, the cost of repairing such defect may be highly disproportionate to the original cost of the product or component. In addition, any significant errors, defects, or other performance failures could render our existing and/or future products unreliable or ineffective and could lead to decreased confidence in our products, adverse customer reaction, negative publicity, mandatory or voluntary recalls, or legal claims, the occurrence of any of which could have a material adverse effect upon our business, financial condition and results of operations.

Further, if our products are defectively designed, manufactured or labeled, contain defective components or are misused, we may become subject to costly litigation by our customers. Product liability claims could divert management's attention from our core business, be expensive to defend and result in sizable damage awards against us.

**New technologies could result in the development of new products by our competitors and a decrease in demand for our products, which could materially adversely affect our business, financial condition and results of operations.**

Our failure to develop new technologies, or anticipate or react to changes in existing technologies, could result in a decrease in our sales and a loss of market share to our competitors. Our financial performance depends on our ability to design, develop and manufacture new products and product enhancements on a timely and cost-effective basis. We may not be able to successfully identify new product opportunities or develop and bring new products to market in a timely and cost-effective manner.

Products or technologies developed by other companies may render our products or technologies obsolete or noncompetitive. Our failure to identify or capitalize on any fundamental shifts in technologies, relative to our competitors, could have a material adverse effect on our competitive position within our industry and harm our relationships with our customers.

**If we fail to comply with specific provisions in our customer contracts or with government contracting or Food and Drug Administration (FDA) regulations, our business could be materially adversely affected.**

Our customer contracts, particularly with respect to contracts for which the government is a direct or indirect customer, may include unique and specialized requirements. This may also include contracts with customers that derive goods subject to FDA regulations. Failure to comply with the specific provisions in our customer contracts, or any violation of government or FDA contracting regulations, could result in termination of the contracts, increased costs to us, suspension of payments, imposition of fines, and suspension from future government contracting. Further, any negative publicity related to our failure to comply with the provisions in our customer contracts could have a material adverse effect on our business, financial condition, or results of operations.

**We may pursue acquisitions or other strategic relationships that involve inherent risks, any of which may cause us to not realize anticipated benefits.**

Our business strategy includes the potential acquisition of businesses and other business combinations that we expect will complement and expand our business. In addition, we may also pursue other strategic relationships or opportunities. We may not be able to successfully identify suitable acquisition or other strategic opportunities or complete any particular acquisition, combination, or other transaction on acceptable terms. Our identification of suitable acquisition candidates and strategic opportunities involves risks inherent in assessing the values, strengths, weaknesses, risks and profitability of these opportunities including their effects on our business, diversion of our management's attention and risks associated with unanticipated problems or unforeseen liabilities. Our failure to identify suitable acquisition or other strategic opportunities may restrict our ability to grow our business. If we are successful in pursuing future acquisitions or strategic opportunities, we may be required to expend significant funds, incur additional debt, or issue additional securities, which may materially and adversely affect our results of operations and be dilutive to our stockholders. If we spend significant funds or incur additional debt, our ability to obtain financing for working capital or other purposes could decline and we may be more vulnerable to economic downturns and competitive pressures. In addition, we cannot guarantee that we will be able to finance additional acquisitions or that we will realize any anticipated benefits from acquisitions or other strategic opportunities that we complete. When we successfully acquire another business, such as Dielectrics, the process of successfully integrating the acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of our existing business. Decreases in customer loyalty or product orders, failure to retain and develop the acquired workforce, failure to integrate financial reporting systems, failure to establish and maintain appropriate controls or unknown or contingent liabilities could adversely affect our ability to realize the anticipated benefits of an acquisition. The integration of an acquired business such as Dielectrics or any other acquired business, whether or not successful, requires significant efforts which may result in additional expenses and divert the attention of our management and technical personnel from other projects. These transactions are inherently risky, and there can be no assurance that any past or future transaction will be successful.

**Failure to retain key personnel could impair our ability to execute our business strategy.**

The continuing service of our executive officers and essential sales, engineering, technical and management personnel, together with our ability to attract and retain such personnel, is an important factor in our continuing ability to execute our strategy. There is substantial competition to attract such employees, and the loss of any such key employees could have a material adverse effect on our business and operating results. The same could be true if we were to experience a high turnover rate among sales, engineering and technical personnel and we were unable to replace them.

**We operate in highly competitive industries and we may be unable to compete successfully, which could materially adversely affect our business, financial condition and results of operations.**

We face intense competition in all markets and in each area of our business, in some cases from our own customers bringing programs in-house. Our primary competition for our products is from smaller, independent, regional manufacturing companies. Our current competitors may increase their participation in, or new competitors may enter into, the markets in which we compete. In addition, our suppliers may acquire or develop the capability and desire to compete with us. If our suppliers choose to expand their own operations, through acquisitions or otherwise, and begin manufacturing and selling products directly to our customers, it could reduce our pricing or sales volume and overall profitability. If we are unable to compete successfully with new or existing competitors, it could have a material adverse effect on our business, financial condition and results of operations.

Further, technological innovation by any of our existing competitors, or new competitors entering any of the markets in which we do business, could put us at a competitive disadvantage and could cause us to lose market share. Increased competition for the sales of our products could result in price reductions, reduced margins and loss of market share, which could materially adversely affect our prospects, business, financial condition and results of operations.

**Our markets are cyclical, which may result in fluctuations in our results of operations.**

Demand for our products, especially in the automotive and aerospace and defense markets, is cyclical. Downturns in economic conditions typically have an adverse effect on cyclical industries due to decreased demand for products. We seek to reduce our exposure to industry downturns and cyclicity by marketing our products to diversified and varied markets. However, we may experience substantial period-to-period fluctuations in our results of operations due to the cyclical nature of demand for our products in the markets in which we compete.

**The cost of raw materials that we use to manufacture our products, particularly petroleum and petroleum-based raw materials, are subject to escalation and could increase, which may materially adversely affect our business, financial condition and results of operations.**

The cost of raw materials, including petroleum and petroleum-based raw materials such as resins, used in the production of our products, represents a significant portion of our direct manufacturing costs. Any fluctuations in the price of petroleum, or any other material used in the production of our products, may have a material adverse effect on our business, financial condition, and results of operations. Such price increases could reduce demand for our products. If we are not able to buy raw materials at fixed prices, or pass on price increases to our customers, we may lose orders or enter into orders with less favorable terms, either of which could have a material adverse effect on our business, financial condition, and results of operations.

**Security breaches, including cybersecurity incidents and other disruptions could compromise our information, expose us to liability and harm our reputation and business.**

In the ordinary course of our business we collect and store sensitive data, including intellectual property, personal information, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees in our data centers and on our networks. The secure maintenance and transmission of this information is critical to our operations and business strategy. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential information. Computer hackers may attempt to penetrate our computer systems and, if successful, misappropriate personal or confidential business information. In addition, an associate, contractor, or other third-party with whom we do business may attempt to circumvent our security measures in order to obtain such information and may purposefully or inadvertently cause a breach involving such information. Despite the security measures we have in place and any additional measures we may implement in the future to safeguard our systems and to mitigate potential security risks, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches. Any such compromise of our data security and access, public disclosure, or loss of personal or confidential business information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption of our operations, damage to our reputation, loss of our customers' willingness to transact business with us, and subject us to additional costs and liabilities which could materially adversely affect our business.

**We may be unable to protect our proprietary technology from infringement.**

We rely on a combination of patents, trademarks, and unpatented proprietary know-how and trade secrets to establish and protect our intellectual property rights. We enter into confidentiality agreements with suppliers, customers, employees, consultants and potential acquisition candidates as necessary to protect our know-how, trade secrets and other proprietary information. However, these measures and our patents and trademarks may not afford complete protection of our intellectual property, and it is possible that third parties may copy or otherwise obtain and use our proprietary information and technology without authorization or otherwise infringe on our intellectual property rights. We cannot assure that our competitors will not independently develop equivalent or superior know-how, trade secrets or production methods. Significant impairment of our intellectual property rights could harm our business or our ability to compete. For example, if we are unable to maintain the proprietary nature of our technologies, our profit margins could be reduced as competitors could more easily imitate our products, possibly resulting in lower prices or lost sales for certain products. In such a case, our business, financial condition and results of operations may be materially adversely affected.

**Fluctuations in the supply of components and raw materials we use in manufacturing our products could cause production delays or reductions in the number of products we manufacture, which could materially adversely affect our business, financial condition and results of operations.**

Our business is subject to the risk of periodic shortages of raw materials. We purchase raw materials pursuant to purchase orders placed from time to time in the ordinary course of business. Failure or delay by such suppliers in supplying us necessary raw materials could adversely affect our ability to manufacture and deliver products on a timely and competitive basis.

While we believe that we may, in certain circumstances, secure alternative sources of these materials, we may incur substantial delays and significant expense in doing so, the quality and reliability of alternative sources may not be the same and our operating results may be materially adversely affected. Alternative suppliers might charge significantly higher prices for materials than we currently pay. Under such circumstances, the disruption to our business could have a material adverse impact on our customer relationships, business, financial condition, and results of operations.

In addition, we are dependent on a relatively small number of suppliers for cross-linked foam and technical polyurethane foams. While we believe that we have developed strong relationships with these suppliers, any failure or delay by such suppliers in supplying us these necessary products could adversely affect our ability to manufacture and deliver products on a timely and competitive basis.

**We are subject to a variety of federal, state and local laws and regulations, including health and safety laws and regulations, and the cost of complying, or our failure to comply, with such requirements could materially adversely affect our business, financial condition and results of operations.**

We are subject to a variety of federal, state and local laws and regulations, including health and safety laws and regulations. We must also comply with a variety of laws relating to doing business outside of the United States, including, among others, laws and regulations relating to Office of Foreign Asset Controls, United States, United Nations, EU and other country specific sanctions, and the Iran Threat Reduction and Syria Human Rights Act of 2012. The risks of substantial costs and liabilities related to compliance with these laws and regulations are an inherent part of our business. Despite our intention to comply with these laws and regulations, we cannot guarantee that we will at all times comply with all such requirements. Compliance with health and safety legislation and other regulatory requirements may prove to be more limiting and costly than we anticipate and may also increase substantially in future years. If we violate, or fail to comply with these requirements, we could be fined or otherwise sanctioned by regulators. In addition, these requirements are complex, change frequently and may become more stringent over time, which could materially adversely affect our business, financial condition and results of operations.

**Our products could infringe the intellectual property rights of others, which may lead to litigation that could itself be costly, result in the payment of substantial damages or royalties, and prevent us from using technology that is essential to our products.**

We cannot guarantee that our products, manufacturing processes or other methods do not infringe the patents or other intellectual property rights of third parties. Infringement and other intellectual property claims and

proceedings brought against us, whether successful or not, could result in substantial costs and harm our reputation. Such claims and proceedings can also distract and divert our management and key personnel from other tasks important to the success of our business. In addition, intellectual property litigation or claims could force us to do one or more of the following:

- cease selling or using any of our products that incorporate the asserted intellectual property, which would adversely affect our revenues;
- pay substantial damages for past use of the asserted intellectual property;
- obtain a license from the holder of the asserted intellectual property, which license may not be available on reasonable terms, if at all; and/or
- redesign or rename, in the case of trademark claims, our products to avoid infringing the intellectual property rights of third parties, which may be costly and time-consuming, even if possible.

In the event of an adverse determination in an intellectual property suit or proceeding, or our failure to license essential technology, our sales could be harmed and our costs could increase, which could materially adversely affect our business, financial condition and results of operations.

**We may lose business if our customers shift their manufacturing offshore.**

Historically, geography has been a large factor in the packaging business. Manufacturing and other companies shipping products typically buy packaging from companies that are relatively close to their manufacturing facilities to increase shipping efficiency and decrease costs. As many U.S. companies move their manufacturing operations overseas, particularly to Asia and Mexico, the associated packaging business often follows. We have lost customers in the past and may lose customers again in the future as a result of customers moving their manufacturing facilities offshore, then hiring our competitors that operate packaging-production facilities perceived to be more territorially advantageous. As a result, our sales may suffer, which could have a material adverse effect upon our business, financial condition and results of operations.

**Reductions in the availability of energy supplies or an increase in energy costs may increase our operating costs.**

We use electricity and natural gas at our manufacturing facilities to operate our equipment. Over the past several years, prices for electricity and natural gas have fluctuated significantly. An outbreak or escalation of hostilities between the United States and any foreign power, or a natural disaster, could result in a real or perceived shortage of petroleum and/or natural gas, which could result in an increase in the cost of electricity or energy generally as well as an increase in the cost of our raw materials, of which many are petroleum-based. In addition, increased energy costs negatively impact our freight costs due to higher fuel prices. Future limitations on the availability or consumption of petroleum products and/or an increase in energy costs, particularly electricity for plant operations, could have a material adverse effect upon our business, financial condition and results of operations.

**As a public company, we need to comply with the reporting obligations of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, and the Dodd-Frank Act of 2010, among other laws and regulations. If we fail to comply with the reporting obligations of these laws or if we fail to maintain adequate internal controls over financial reporting, our business, financial condition, and results of operations and investors' confidence in us, could be materially and adversely affected.**

As a public company, we are required to comply with the periodic reporting obligations of the Exchange Act, including preparing annual reports, quarterly reports and current reports. We are also subject to certain of the provisions of the Sarbanes-Oxley and Dodd-Frank Acts which, among other things, require enhanced disclosure of business, financial, compensation and governance information. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws, expose us to lawsuits, and restrict our ability to access financing. We may identify areas requiring improvement with respect to our internal control over financial reporting, and we may be required to design enhanced processes and controls to address issues identified. This could result in significant delays and cost to us and require us to divert substantial resources, including management time, from other activities. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis

that we have effective internal control over financial reporting. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud.

**Restrictions in our credit facilities may limit our business and financial activities, including our ability to obtain additional capital in the future.**

In February 2018, we entered into a Credit Agreement with Bank of America, N.A., which provided for a \$50 million revolving credit facility and a \$20 million term loan facility. This Credit Agreement contains covenants imposing various restrictions on our business and financial activities. These restrictions may affect our ability to operate our business and undertake certain financial activities and may limit our ability to take advantage of potential business or financial opportunities as they arise. The restrictions these covenants place on us include limitations on our ability to incur liens, incur indebtedness, make investments, dissolve or merge or consolidate with or into another entity, dispose of certain property, and make restricted payments. The Credit Agreement also requires us to meet certain financial ratios, including a minimum fixed-charge coverage ratio and a maximum total funded debt to EBITDA ratio. The breach of any of these covenants or restrictions could result in a default under the Credit Agreement, which could have a material adverse impact to our business, financial condition and results of operation.

We are also exposed to the risk of increasing interest rates as our revolving credit facility is at a variable interest rate. Any material changes in interest rates could result in higher interest expense and related payments for us. We have entered into an interest rate swap agreement that modifies our variable interest rate exposure with regards to the term loan 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.

**Members of our board of directors and management who also are our stockholders exert significant influence over us.**

Based on information made available to us, we believe that our executive officers, directors and their affiliates collectively owned approximately 9.9% of our outstanding shares of common stock as of March 2, 2020. As a result, those stockholders may, if acting together, control or exert substantial influence over actions requiring stockholders' approval, including elections of our directors, amendments to our certificate of incorporation, mergers, sales of assets or other business acquisitions or dispositions.

**Provisions of our corporate charter documents and Delaware law, may dissuade potential acquirers, prevent the replacement or removal of our current management and may thereby affect the price of our common stock.**

The board of directors has the authority to issue up to 1,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges, and restrictions, including voting rights of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible financings, acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. We have no present plans to issue shares of preferred stock.

Further, certain provisions of our certificate of incorporation, bylaws, and Delaware law could delay or make more difficult a merger, tender offer or proxy contest involving us or, for a third party to acquire a majority of our outstanding voting common stock. These include provisions that classify our board of directors, limit the ability of stockholders to take action by written consent, call special meetings, remove a director for cause, amend the bylaws, or approve a merger with another company. In addition, our bylaws set forth advance notice procedures for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law which prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the

interested stockholder, and an “interested stockholder” is a person who, either alone or together with affiliates and associates, owns (or within the past three years did own) 15% or more of the corporation’s voting stock.

**Regulations related to “conflict minerals” may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.**

In 2012, the SEC adopted a rule requiring disclosures by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule requires an annual disclosure report to be filed and requires companies to perform due diligence and disclose and report whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tantalum, tin, gold and tungsten. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. Since our supply chain is complex, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we undertake, which may harm our reputation. In addition, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

**Our operations could be disrupted by natural or human causes beyond our control.**

Our operations are subject to the risk of disruption by hurricanes, severe storms, floods and other forms of severe weather, earthquakes and other natural disasters, accidents, fire, power shortages, geopolitical unrest, war and other military action, terrorist attacks and other hostile acts, public health issues, epidemics or pandemics, and other events, such as raw material or supply scarcity, that are beyond our control and the control of the third parties on which we depend. Any of these catastrophic events, whether in the United States or abroad, may have a strong negative impact on the global economy, our employees, facilities, suppliers, or customers, and could decrease demand for our products or our customers’ products, create delays and inefficiencies in our supply chain and make it difficult or impossible for us to deliver products to our customers in a timely manner. If there is a natural disaster or other serious disruption at any of our facilities, we may experience plant shutdowns or periods of reduced production as a result of equipment failures, loss of power, delays in delivery of raw materials or supplies, personnel absences, or extensive damage to any of our facilities, any of which could materially adversely affect our business, financial condition or results of operations. In addition, our insurance coverage may not adequately compensate us for losses incurred as a direct or indirect result of natural or other disasters.

In December 2019 an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to a number of other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of the time of the filing of this Annual Report on Form 10-K, several states in the United States, including Massachusetts, where we are headquartered, have declared states of emergency, and several countries around the world, including the United States, have taken steps to restrict travel. While all of our operations are located in the United States, we participate in a global supply chain, and the existence of a worldwide pandemic, the fear associated with COVID-19, or any, pandemic, and the reactions of governments around the world in response to COVID-19, or any, pandemic, to regulate the flow of labor and products and impede the travel of personnel, may impact our ability to conduct normal business operations, which could adversely affect our results of operations and liquidity. Disruptions to our supply chain and business operations, or to our suppliers’ or customers’ supply chains and business operations, could include disruptions from the closure of supplier and manufacturer facilities, interruptions in the supply of raw materials and components, personnel absences, or restrictions on the shipment of our or our suppliers’ or customers’ products, any of which could have adverse ripple effects on our manufacturing output and delivery schedule. If we need to close any of our facilities or a critical number of our employees become too ill to work, our production ability could be materially adversely affected in a rapid manner. Similarly, if our customers experience adverse business consequences due to COVID-19, or any other, pandemic, demand for our products could also be materially adversely affected in a rapid manner. Global health concerns, such as COVID-19, could also result in social, economic, and labor instability in the countries and localities in which we or our suppliers and customers operate. Any of these uncertainties could

have a material adverse effect on our business, financial condition or results of operations. In addition, a catastrophic event that results in the destruction or disruption of our data centers or our critical business or information technology systems would severely affect our ability to conduct normal business operations and, as a result, our operating results would be adversely affected.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES**

The following table presents certain information relating to each of the Company's design and manufacturing properties:

Location	Square Feet	Lease Expiration Date	Principal Use
Georgetown, Massachusetts	57,600	Company Owned	Fabrication, molding, test lab, clean room and engineering
Newburyport, Massachusetts	183,000	Company Owned	Headquarters, fabrication, molding, tooling, test lab, clean room, warehousing and engineering
Huntsville, Alabama	9,000	6/30/2021	Engineering, design and fabrication
Grand Rapids, Michigan	255,260	Company Owned	Fabrication, molding, warehousing and engineering
Rancho Dominguez, California	56,000	11/14/2022	Fabrication, molding and engineering
Denver, Colorado	18,270	Company Owned	Fabrication, molding and engineering
Denver, Colorado	28,383	Company Owned	Fabrication, molding and engineering
Kissimmee, Florida	49,400	Company Owned	Fabrication, molding, test lab and engineering
El Paso, Texas	127,730	Company Owned	Warehousing, fabrication and molded fiber operations
Clinton, Iowa	60,000	Company Owned	Molded fiber operations
Clinton, Iowa	62,000	Company Owned	Molded fiber operations
Chicopee, Massachusetts	103,792	1/31/23	Fabrication, molding, clean room and engineering

**ITEM 3. LEGAL PROCEEDINGS**

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.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

**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:

<b>Year Ended December 31, 2018</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 31.30	\$ 26.05
Second Quarter	34.00	29.00
Third Quarter	37.25	30.58
Fourth Quarter	39.98	28.25

  

<b>Year Ended December 31, 2019</b>	<b>High</b>	<b>Low</b>
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.

## **ITEM 6. 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:

**Years Ended December 31**  
(in thousands, except per share data)

<b>Consolidated Statements of Income data</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
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

**As of December 31**  
(in thousands)

<b>Consolidated Balance Sheets data</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
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

**ITEM 7. 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net sales	100.0%	100.0%	100.0%
Cost of sales	<u>72.8%</u>	<u>74.6%</u>	<u>76.0%</u>
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	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Operating income	12.5%	10.3%	8.0%
Total other expense (income)	<u>0.5%</u>	<u>0.7%</u>	<u>-0.1%</u>
Income before taxes	12.0%	9.6%	8.1%
Income tax expense	<u>2.0%</u>	<u>2.1%</u>	<u>1.9%</u>
Net income from consolidated operations	<u>10.0%</u>	<u>7.5%</u>	<u>6.2%</u>

## 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 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):

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
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:

	Total	Payment Due By Period (in thousands) (1)			
		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 this Report and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset of 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 Item 8 of this Report. The Company believes the following critical accounting policies necessitated that significant judgments and estimates be used in the preparation of its consolidated financial statements.

The Company has reviewed these policies with its Audit Committee.

#### Revenue Recognition

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.

## **ITEM 7A. 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.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements and supplementary data of the company are listed under Part IV, Item 15, in this Report.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance, as opposed to absolute assurance, of achieving their internal control objectives.

Management conducted an assessment of 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). Based on the assessment, management concluded that, as of December 31, 2019, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2019, has been audited by Grant Thornton LLP, an independent registered public accounting firm, who also audited the Company's consolidated financial statements. Grant Thornton's attestation report on the Company's internal control over financial reporting is included herein.

There was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The information required by this Item 10 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item 12 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item 14 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) (1) <u>Financial Statements</u>	<u>Page</u>
Index to Consolidated Financial Statements and Financial Statement Schedule .....	F-2
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Consolidated Balance Sheets as of December 31, 2019 and 2018 .....	F-5
Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017 .....	F-6

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017 .....	F-7
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017 .....	F-8
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(a) (2) <u>Financial Statement Schedule</u>	
Schedule II – Valuation and Qualifying Accounts .....	F-30

All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

(a) (3) Exhibits

**Exhibit Index**

<u>Number</u>	<u>Description of Exhibit</u>
3.01	Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.01 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed with the SEC on May 15, 2004 (SEC File No. 001-12648)).
3.02	Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit 3.02 to the Company's Current Report on Form 8-K, filed with the SEC on March 24, 2009 (SEC File No. 001-12648)).
3.03	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.03 to the Company's Current Report on Form 8-K, filed with the SEC on March 24, 2009 (SEC File No. 001-12648)).
4.01	Specimen Certificate for shares of the Company's Common Stock (incorporated by reference to Exhibit 4.01 to the Company's Registration Statement on Form S-1, filed with the SEC on December 15, 1993) (filed in paper format).
4.02	Description of Capital Stock (contained in the Certificate of Incorporation of the Company, as amended, filed as Exhibit 3.01 hereto).
10.01	Form of Indemnification Agreement for directors and officers of the Company (incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-1, filed with the SEC on December 15, 1993) (filed in paper format). #
10.02	Executive Non-qualified Excess Plan (incorporated by reference to Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2006, filed with the SEC on November 13, 2006 (SEC File No. 001-12648)). #
10.03	Employment Agreement with R. Jeffrey Bailly dated October 8, 2007 (incorporated by reference to Exhibit 10.28 to the Company's Current Report on Form 8-K, filed with the SEC on October 12, 2007 (SEC File No. 001-12648)). #
10.04	2009 Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit 10.66 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the SEC on May 10, 2013 (SEC File No. 001-12648)). #

<u>Number</u>	<u>Description of Exhibit</u>
10.05	Amendment No. 1 to Employment Agreement with R. Jeffrey Bailly (incorporated by reference to Exhibit 10.56 to the Company's Current Report on Form 8-K, filed with the SEC on March 8, 2011 (SEC File No. 001-12648)). #
10.06	Facility Lease between the Company and Susana Property Co. (incorporated by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2012, filed with the SEC on November 9, 2012 (SEC File No. 001-12648)).
10.07	Amendment No. 2 to Employment Agreement with R. Jeffrey Bailly (incorporated by reference to Exhibit 10.62 to the Company's Current Report on Form 8-K, filed with SEC on February 22, 2013 (SEC File No. 001-12648)). #
10.08	Form of 2016 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 26, 2016 (SEC File No. 001-12648)). #
10.09	Form of 2016 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 26, 2016 (SEC File No. 001-12648)). #
10.10	Form of 2017 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 27, 2017 (SEC File No. 001-12648)). #
10.11	Form of 2017 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 27, 2017 (SEC File No. 001-12648)). #
10.12	Form of 2018 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 28, 2018 (SEC File No. 001-12648)). #
10.13	Form of 2018 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 28, 2018 (SEC File No. 001-12648)). #
10.14	Form of 2019 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 25, 2019 (SEC File No. 001-12648)). #
10.15	Form of 2019 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 25, 2019 (SEC File No. 001-12648)). #

<u>Number</u>	<u>Description of Exhibit</u>
10.16	Form of 2019 Non-Qualified Stock Option Agreement under the 2009 Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019, filed with the SEC on August 9, 2019 (SEC File No. 001-12648)). #
10.17	Form of 2019 Stock Unit Award Agreement under the 2009 Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019, filed with the SEC on August 9, 2019 (SEC File No. 001-12648)). #
10.18	First Amendment to Facility Lease between the Company and Susana Property Co. dated July 6, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2017, filed with the SEC on August 9, 2017 (SEC File No. 001-12648)).
10.19	Amended and Restated Credit and Guaranty Agreement, dated as of February 1, 2018 among the Company, the Guarantors from time to time party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender, L/C Issuer, Sole Lead Arranger and Sole Book Manager (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the period ended December 31, 2017, filed with the SEC on March 16, 2018 (SEC File No. 001-12648)).
10.20	Stock Purchase Agreement, dated as of January 30, 2018, by and among the Company, the Sellers defined therein, Dielectrics and the Sellers' Representative (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the period ended December 31, 2017, filed with the SEC on March 16, 2018 (SEC File No. 001-12648)).
10.21	Agreement for the Purchase and Sale of Personal Goodwill, dated as of January 30, 2018, by and among the Company and Eric C. Stahl (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the period ended December 31, 2017, filed with the SEC on March 16, 2018 (SEC File No. 001-12648)).
10.22	Lease dated as of February 1, 2018, by and between Eric C. Stahl and the Company (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the period ended December 31, 2017, filed with the SEC on March 16, 2018 (SEC File No. 001-12648)).
10.23	Amended and Restated 2003 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018, filed with the SEC on May 10, 2018 (SEC File No. 001-12648))#
10.24	Form of 2020 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 28, 2020 (SEC File No. 001-12648)). #
10.25	Form of 2020 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 28, 2020 (SEC File No. 001-12648)). #
21.01	Subsidiaries of the Company. *
23.01	Consent of Grant Thornton LLP. *
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

<u>Number</u>	<u>Description of Exhibit</u>
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
101.INS	XBRL Instance Document. *
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Calculation Linkbase Document. *
101.LAB	XBRL Taxonomy Label Linkbase Document. *
101.PRE	XBRL Taxonomy Presentation Linkbase Document. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *

\* Filed herewith.

\*\* Furnished herewith.

# Indicates management contract or compensatory plan or arrangement.

**ITEM 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UFP TECHNOLOGIES, INC.

Date: March 13, 2020 By: /s/ R. Jeffrey Bailly  
R. Jeffrey Bailly, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ R. Jeffrey Bailly</u> R. Jeffrey Bailly	Chairman, Chief Executive Officer, President, and Director	March 13, 2020
<u>/s/ Ronald J. Lataille</u> Ronald J. Lataille	Chief Financial Officer, Senior Vice President, Principal Financial and Accounting Officer	March 13, 2020
<u>/s/ Daniel C. Croteau</u> Daniel C. Croteau	Director	March 13, 2020
<u>/s/ Cynthia Feldmann</u> Cynthia Feldmann	Director	March 13, 2020
<u>/s/ Marc Kozin</u> Marc Kozin	Director	March 13, 2020
<u>/s/ Thomas Oberdorf</u> Thomas Oberdorf	Director	March 13, 2020
<u>/s/ Robert W. Pierce, Jr.</u> Robert W. Pierce, Jr.	Director	March 13, 2020
<u>/s/ Lucia Luce Quinn</u> Lucia Luce Quinn	Director	March 13, 2020

**UFP TECHNOLOGIES, INC.**

Consolidated Financial Statements  
and Financial Statement Schedule

As of December 31, 2019 and 2018  
And for the Years Ended December 31, 2019, 2018 and 2017

With Reports of Independent Registered Public Accounting Firm

## UFP TECHNOLOGIES, INC.

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## 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.

/s/ 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.

/s/ GRANT THORNTON LLP

Boston, Massachusetts  
March 13, 2020

**UFP TECHNOLOGIES, INC.**  
**Consolidated Balance Sheets**  
(In thousands, except share data)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
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	<u>53,250</u>	<u>55,626</u>
Property, plant and equipment	116,089	111,779
Less accumulated depreciation and amortization	(59,350)	(54,112)
Net property, plant and equipment	<u>56,739</u>	<u>57,667</u>
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	<u>\$ 188,758</u>	<u>\$ 189,598</u>
<b>Liabilities and Stockholders' Equity</b>		
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	<u>16,308</u>	<u>20,658</u>
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	<u>26,767</u>	<u>49,141</u>
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; and 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	<u>161,991</u>	<u>140,457</u>
Total liabilities and stockholders' equity	<u>\$ 188,758</u>	<u>\$ 189,598</u>

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

**UFP TECHNOLOGIES, INC.**  
**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.

**UFP TECHNOLOGIES, INC.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2019, 2018 and 2017**  
(In thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>	<u>Earnings</u>	<u>Shares</u>	<u>Amount</u>	<u>Stockholders'</u> <u>Equity</u>
<b>Balance at December 31, 2016</b>	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
<b>Balance at December 31, 2017</b>	<b>7,280</b>	<b>\$ 73</b>	<b>\$ 26,664</b>	<b>\$ 97,562</b>	<b>30</b>	<b>\$ (587)</b>	<b>\$ 123,712</b>
Share-based compensation	31	-	1,212	-	-	-	1,212
Exercise of stock options net of 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
<b>Balance at December 31, 2018</b>	<b>7,385</b>	<b>\$ 74</b>	<b>\$ 29,168</b>	<b>\$ 111,802</b>	<b>30</b>	<b>\$ (587)</b>	<b>\$ 140,457</b>
Share-based compensation	29	-	1,591	-	-	-	1,591
Exercise of stock options net of 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
<b>Balance at December 31, 2019</b>	<b>7,446</b>	<b>\$ 74</b>	<b>\$ 30,952</b>	<b>\$ 131,552</b>	<b>30</b>	<b>\$ (587)</b>	<b>\$ 161,991</b>

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

**UFP TECHNOLOGIES, INC.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>			
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	<u>31,229</u>	<u>21,320</u>	<u>17,469</u>
<b>Cash flows from investing activities:</b>			
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	<u>(5,774)</u>	<u>(82,329)</u>	<u>(10,375)</u>
<b>Cash flows from financing activities:</b>			
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	<u>(24,950)</u>	<u>26,269</u>	<u>(475)</u>
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	<u>\$ 3,743</u>	<u>\$ 3,238</u>	<u>\$ 37,978</u>

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

**UFP TECHNOLOGIES, INC.**  
**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:

	Shorter of estimated useful life or remaining lease term
Leasehold improvements	
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):

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Share-based compensation expense	<u>\$ 1,591</u>	<u>\$ 1,212</u>	<u>\$ 1,068</u>

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:

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
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 carry-forwards. 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):

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
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	<u>\$ 198,381</u>	<u>\$ 190,455</u>	<u>\$ 147,843</u>

#### *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):

	<b>Contract Liabilities</b>	
	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
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	<u>\$ 2,574</u>	<u>\$ 2,507</u>

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):

	<b>Contract Assets</b>	
	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Unbilled Receivables - beginning of period	\$ 65	\$ -
Increases due to revenue recognized - not invoiced to customers	831	301
Decreases due to customer invoicing	(824)	(236)
Unbilled Receivables - end of period	<u>\$ 72</u>	<u>\$ 65</u>

### (3) Supplemental Cash Flow Information

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(in thousands)		
Cash paid for:			
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):

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Accounts receivable–trade	\$ 29,134	\$ 28,885
Less allowance for doubtful receivables	(486)	(564)
Receivables, net	<u>\$ 28,648</u>	<u>\$ 28,321</u>

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):

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

#### (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):

<b><u>December 31, 2019</u></b>	<b><u>Tradename &amp; Brand</u></b>	<b><u>Non- Compete</u></b>	<b><u>Customer List</u></b>	<b><u>Total</u></b>
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	<u>\$ 297</u>	<u>\$ 285</u>	<u>\$ 20,393</u>	<u>\$ 20,975</u>

<b><u>December 31, 2018</u></b>	<b><u>Tradename &amp; Brand</u></b>	<b><u>Non- Compete</u></b>	<b><u>Customer List</u></b>	<b><u>Total</u></b>
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	<u>\$ 334</u>	<u>\$ 377</u>	<u>\$ 21,521</u>	<u>\$ 22,232</u>

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	<u>\$ 20,975</u>

## (7) Property, Plant and Equipment

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
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
	<u>\$ 116,089</u>	<u>\$ 111,779</u>

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):

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
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	<u>\$ -</u>	<u>\$ 22,286</u>

#### *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):

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
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
	<u>\$ 8,483</u>	<u>\$ 8,458</u>

**(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):

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

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):

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
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	<u>2,881</u>	<u>1,936</u>
Valuation allowance	(136)	-
Net deferred tax assets	<u>2,745</u>	<u>1,936</u>
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	<u>(7,666)</u>	<u>(6,065)</u>
Net long-term deferred tax liabilities	<u>\$ (4,921)</u>	<u>\$ (4,129)</u>

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:

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
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	<u>16.5%</u>	<u>22.2%</u>	<u>22.3%</u>

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):

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
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	<u>\$ -</u>	<u>\$ 150</u>

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):

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
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	<u>7,516</u>	<u>7,430</u>	<u>7,337</u>

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):

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b><u>Share-based compensation related to:</u></b>			
Common stock grants	\$ 400	\$ 505	\$ 505
Stock option grants	151	149	138
Restricted Stock Unit awards	1,040	558	425
Total share-based compensation	<u>\$ 1,591</u>	<u>\$ 1,212</u>	<u>\$ 1,068</u>

### 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:

	<b>Shares Under Options</b>	<b>Weighted Average Exercise Price</b> (per share)	<b>Weighted Average Remaining Contractual Life</b> (in years)	<b>Aggregate Intrinsic Value</b> (in thousands)
Outstanding December 31, 2018	134,043	\$ 20.46		
Granted	16,536	38.61		
Exercised	(44,965)	15.68		
Outstanding December 31, 2019	<u>105,614</u>	<u>\$ 25.34</u>	<u>5.70</u>	<u>\$ 2,563</u>
Exercisable at December 31, 2019	<u>85,328</u>	<u>\$ 22.62</u>	<u>5.10</u>	<u>\$ 2,303</u>
Vested and expected to vest at December 31, 2019	<u>105,614</u>	<u>\$ 25.34</u>	<u>5.70</u>	<u>\$ 2,563</u>

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, \$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:

	<b>Restricted Stock Units</b>	<b>Weighted Average Award Date Fair Value</b>
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	<u>113,866</u>	\$ 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):

	<b>Options</b>	<b>Restricted Stock Units</b>	<b>Total</b>
2020	\$ 116	\$ 999	\$ 1,115
2021	-	746	746
2022	-	409	409
2023	-	48	48
Total	<u>\$ 116</u>	<u>\$ 2,202</u>	<u>\$ 2,318</u>

### (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.

	<b>Year Ended December 31, 2019 (\$ in thousands)</b>
Lease cost:	
Operating	\$ 1,222
Variable	219
Short-term	27
Total lease cost	<u>\$ 1,468</u>
Cash paid for amounts included in measurement of lease liabilities:	
Operating	<u>\$ 1,208</u>
Weighted-average remaining lease term (years):	
Operating	<u>2.69</u>
Weighted-average discount rate:	
Operating	<u>4.45%</u>
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	<u>3,284</u>
Less: Interest	(194)
Present value of lease liabilities	<u>\$ 3,090</u>

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	\$	<u>4,195</u>

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):

<u>Level 2</u>	<u>December 31,</u> <u>2019</u>
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):

<b>Market</b>	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<b>Net Sales</b>	<b>%</b>	<b>Net Sales</b>	<b>%</b>	<b>Net Sales</b>	<b>%</b>
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	<u>\$ 198,381</u>	<u>100.0%</u>	<u>\$ 190,455</u>	<u>100.0%</u>	<u>\$ 147,843</u>	<u>100.0%</u>

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):

<b>2019</b>	<b>Q1</b>		<b>Q2</b>		<b>Q3</b>		<b>Q4</b>	
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
<b>2018</b>	<b>Q1</b>		<b>Q2</b>		<b>Q3</b>		<b>Q4</b>	
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	\$	<u>76,978</u>

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		<u>44,516</u>
Total identifiable assets	\$	81,424
Accounts payable		(1,325)
Accrued expenses		(946)
Deferred revenue		<u>(2,175)</u>
Net assets acquired	\$	<u><u>76,978</u></u>

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

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

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

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

**UFP TECHNOLOGIES, INC.****Consolidated Financial Statement Schedule**

## Valuation and Qualifying Accounts

Years ended December 31, 2019, 2018 and 2017

Accounts receivable, allowance for doubtful accounts:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	\$ 564	\$ 652	\$ 567
Provision for bad debt	(52)	(50)	116
Write-offs, net of recoveries	(26)	(38)	(31)
Balance at end of year	<u>\$ 486</u>	<u>\$ 564</u>	<u>\$ 652</u>

UFP Technologies, Inc. wholly owns the following companies:

1. Moulded Fibre Technology, Inc., a Maine company
2. Simco Industries, Inc., a Michigan company
3. Dielectrics, Inc., a Massachusetts company
4. UFP Realty LLC, a Massachusetts limited liability company, and its wholly-owned subsidiaries:
  - a. UFPT MA, LLC, a Massachusetts limited liability company
  - b. UFP CO, LLC, a Colorado limited liability company
  - c. UFP FL, LLC, a Florida limited liability company
  - d. UFP TX, LLC, a Texas limited liability company
  - e. UFP MI, LLC, a Michigan limited liability company
  - f. UFP IA, LLC, an Iowa limited liability company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 13, 2020, with respect to the consolidated financial statements and internal controls over financial reporting included in the Annual Report of UFP Technologies, Inc. on Form 10-K for the year ended December 31, 2018. We hereby consent to the incorporation by reference of said reports in the Registration Statements of UFP Technologies, Inc. on Forms S-8 (File No. 333-174907, File No. 333-151883, File No. 333-143673, File No. 333-116436, File No. 333-56741, File No. 333-91408, and File No. 333-106390).

/s/ GRANT THORNTON LLP

Boston, MA  
March 13, 2020

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, R. Jeffrey Bailly, President and Chief Executive Officer of UFP Technologies, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of UFP Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 13, 2020

Date

/s/ R. Jeffrey Bailly

R. Jeffrey Bailly  
Chairman, Chief Executive Officer,  
President, and Director  
(Principal Executive Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ronald J. Lataille, Chief Financial Officer of UFP Technologies, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of UFP Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 13, 2020

Date

/s/ Ronald J. Lataille

Ronald J. Lataille  
Chief Financial Officer  
(Principal Financial Officer)

CERTIFICATION

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officers of UFP Technologies, Inc., a Delaware corporation (the "Company"), do hereby certify, to the best of such officers' knowledge and belief, that:

(1) The Annual Report on Form 10-K for the year ended December 31, 2019, (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all materials respects, the financial condition and results of operations of the Company.

<u>March 13, 2020</u> Date	<u>/s/ R. Jeffrey Bailly</u> R. Jeffrey Bailly Chairman, Chief Executive Officer, President, and Director (Principal Executive Officer)
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<u>March 13, 2020</u> Date	<u>/s/ Ronald J. Lataille</u> Ronald J. Lataille Chief Financial Officer (Principal Financial Officer)
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A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to UFP Technologies, Inc. and will be retained by UFP Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.