CHARLES CLAUDE
Form 4
April 20, 2010

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
CHARLES CLAUDE
(Last) (First) (Middle)
C/OEMAGIN CORP, 3006 NORTHUP WAY #103
(Street)
BELLEVUE, WA 98004
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
EMAGIN CORP [EMAN]

3. Date of Earliest Transaction (Month/Day/Year)
04/15/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)		(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Options (right to buy)	$ 3.69	04/15/2010		J (1)		25,000		04/15/2010	04/15/2020	Common Stock	25,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CHARLES CLAUDE C/OEMAGIN CORP 3006 NORTHUP WAY #103 BELLEVUE, WA 98004	X			

Signatures

/s/ Susan K. Jones	04/19/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Issued as compensation for services performed on behalf of the Issuer in the Reporting Person's capacity as a director of the Issuer (compensation for Board of Directors)

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. r: White">Total share-based compensation $272 $206 $963 $842

The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately $289,000 and $106,000 for the three-month periods ended September 30, 2018 and 2017, respectively, and approximately $649,000 and $441,000 for the nine-month periods ended September 30, 2018 and 2017, respectively.

The following is a summary of stock option activity under all plans for the nine-month period ended September 30, 2018:

	Shares Under Options	**Weighted Average Exercise Price** (per share)	**Weighted Average Remaining Contractual Life** (in years)	**Aggregate Intrinsic Value** (in thousands)
Outstanding at December 31, 2017	202,379	$ 18.23		
Granted	10,344	31.20		
Exercised	(78,680)	16.14		
Outstanding at September 30, 2018	134,043	$ 20.46	4.75	$ 2,183
Exercisable at September 30, 2018	122,793	$ 19.71	4.80	$ 2,093
Vested and expected to vest at September 30, 2018	134,043	$ 20.46	4.75	$ 2,183

On June 6, 2018, the Company granted options to its directors for the purchase of 10,344 shares of common stock at that day's closing price of $31.20. The compensation expense related to these grants was determined as the fair value of the options using the Black-Scholes option pricing model based on the following assumptions:

Expected volatility	27.7 %
Expected dividends	None
Risk-free interest rate	2.70 %
Exercise price	$31.20
Expected term (in years)	6.0
Weighted-average grant date fair value	$10.15

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.

During the nine-month period ended September 30, 2018 and 2017, the total intrinsic value of all options exercised (i.e., the difference between the market price on the exercise date and the price paid by the employees to exercise the options) was approximately $1.2 million and $577,000, respectively, and the total amount of consideration received by the Company from the exercised options was approximately $1.3 million and $802,000, 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 nine-month period ended September 30, 2018, no shares were surrendered for this purpose. During the nine-month period ended September 30, 2017, 6,511 shares were surrendered for this purpose at an average market price of $26.45.

On February 21, 2018, the Company's Compensation Committee approved the award of $400,000, payable in shares of common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Incentive Plan. Subject to his continued employment and the terms of his employment agreement, the shares will be issued in December 2018.

The following table summarizes information about Restricted Stock Units ("RSUs") activity during the nine-month period ended September 30, 2018:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2017	57,395	$ 21.03
Awarded	29,867	29.30
Shares vested	(16,050)	23.55
Outstanding at September 30, 2018	71,212	$ 23.48

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 nine-month periods ended September 30, 2018 and 2017, 5,328 and 4,377 shares were surrendered at an average market price of $27.60 and $24.50, respectively.

As of September 30, 2018, the Company had approximately $1.2 million of unrecognized compensation expense that is expected to be recognized over a period of 3.5 years.

(6) Inventories

Inventories are stated at the lower of cost (determined using the first-in, first-out method) or net realizable value, and consist of the following at the stated dates (in thousands):

	September 30, 2018	December 31, 2017
Raw materials	$ 10,226	$ 6,898

Work in process	4,105	1,207
Finished goods	5,571	4,758
Total inventory	$ 19,902	$ 12,863

(7) Preferred Stock

On March 18, 2009, the Company declared a dividend of one preferred share purchase right (a “Right”) for each outstanding share of common stock, par value $0.01 per share, to the stockholders of record on March 20, 2009. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share (the “Preferred Share”) of the Company, at a price of $25 per one one-thousandth of a Preferred Share subject to adjustment and the terms of the Rights Agreement. The Rights expire on March 19, 2019.

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(8) Income Per Share

Basic income per share is based on the weighted average number of shares of common stock outstanding. Diluted income per share is based upon the weighted average number of common shares outstanding and dilutive common stock equivalent shares outstanding during each period.

The weighted average number of shares used to compute basic and diluted net income per share consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic weighted average common shares outstanding	7,366	7,264	7,338	7,240
Weighted average common equivalent shares due to stock options and RSUs	69	89	68	86
Diluted weighted average common shares outstanding	7,435	7,353	7,406	7,326

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 income per share because the effect would be antidilutive. For the three- and nine-month periods ended September 30, 2018, the number of antidilutive stock awards excluded from the computation of diluted earnings per share was zero and 10,344, respectively. For the three- and nine-month periods ended September 30, 2017, the number of antidilutive stock awards excluded from the computation of diluted earnings per share was zero and 27,336, respectively.

(9) Segment Reporting

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 three- and nine-month periods ended September 30, 2018. All of the Company’s assets are located in the United States.

The Company’s products are primarily sold to customers within the Medical, Consumer, Automotive, Aerospace and Defense, Electronics and Industrial markets. Net sales by market for the three- and nine-month periods ended

September 30, 2018 and 2017 are as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
Market	Net Sales	%	Net Sales	%	Net Sales	%	Net Sales	%
Medical	$27,629	57.8 %	$16,811	47.1 %	$80,994	58.0 %	$53,001	47.9 %
Consumer	6,588	13.8 %	5,714	16.0 %	17,825	12.8 %	14,928	13.5 %
Automotive	4,572	9.6 %	5,174	14.5 %	14,993	10.7 %	18,018	16.3 %
Aerospace & Defense	3,814	8.0 %	2,657	7.4 %	9,381	6.7 %	8,255	7.5 %
Electronics	2,800	5.9 %	2,821	7.9 %	8,641	6.2 %	8,898	8.0 %
Industrial	2,405	5.0 %	2,507	7.0 %	7,924	5.7 %	7,523	6.8 %
Net Sales	$47,808	100.0%	$35,684	100.0%	$139,758	100.0%	$110,623	100.0%

Certain immaterial amounts for the three- and nine-months ended September 30, 2017 were reclassified between markets to conform to the current period presentation.

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(10) Other Intangible Assets

The carrying values of the Company's definite lived intangible assets as of September 30, 2018, are as follows (in thousands):

	Tradename & Brand	Non-Compete	Customer List	Total
Estimated useful life	10 years	5 years	20 years	
Gross amount	$ 367	$ 462	$22,555	$23,384
Accumulated amortization	(24)	(62)	(752)	$(838)
Net balance	$ 343	$ 400	$21,803	$22,546

The weighted-average amortization period for all intangible assets is 19.6 years. Amortization expense related to intangible assets was approximately $314,000 and $79,000 for the three-month periods ended September 30, 2018 and 2017, respectively, and $838,000 and $239,000 for the nine-month periods ended September 30, 2018 and 2017, respectively. The estimated remaining amortization expense as of September 30, 2018 is as follows (in thousands):

Remainder of:	
2018	$314
2019	1,257
2020	1,257
2021	1,257
2022	1,257
Thereafter	17,204
Total	$22,546

(11) Income Taxes

The income tax expense included in the accompanying unaudited condensed consolidated statements of income principally relates to the Company's proportionate share of the pre-tax income of its wholly-owned subsidiaries. The determination of income tax expense for interim reporting purposes is based upon the estimated effective tax rate for the year, adjusted for the impact of any discrete items which are accounted for in the period in which they occur.

The Company recorded tax expense of approximately 26.5% and 33.6% of income before income tax expense, for each of the three-month periods ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the current period is largely due to a change in the statutory federal tax rate for 2018 and share-based payment

related tax benefits recorded in the three-month period ended September 30, 2018 of approximately $36,000. The Company recorded tax expense of approximately 25.4% and 33.3% of income before income tax expense, for each of the nine-month periods ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the current period is largely due to a change in the statutory federal tax rate for 2018 and share-based payment related tax benefits recorded in the nine-month period ended September 30, 2018 of approximately $220,000. 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.

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the "2017 Tax Act"), resulting in significant modifications to existing law. The 2017 Tax Act effected a reduction in the corporate tax rate from 35% to 21%, and changes to executive compensation limitations under IRC Section 162(m), among other changes. The Company made what it considers to be a reasonable estimate of the impact of the 2017 Tax Act in its financials for the year ended December 31, 2017. The Company has not recorded any changes to this estimate for the three-month period ended September 30, 2018.

Staff Accounting Bulletin ("SAB") No. 118, issued by the Securities and Exchange Commission ("SEC"), provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the 2017 Tax Act. In accordance with SEC guidance, provisional amounts may be refined as a result of additional guidance from, and interpretations by, U.S. regulatory and standard-setting bodies and changes in assumptions. In the subsequent period, provisional amounts will be adjusted for the effects, if any, of interpretative guidance issued after December 31, 2017 by the U.S. Department of the Treasury.

(12) Indebtedness

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

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

The credit facilities under the Amended and Restated Credit Agreement (the "Amended and Restated Credit Facilities") consist of a $20 million unsecured term loan and an unsecured revolving credit facility, under which the Company may borrow up to $50 million. The Amended and Restated Credit Agreement matures on February 1, 2023. The proceeds borrowed pursuant to the Amended and Restated Credit Agreement may be used for general corporate purposes, including funding the acquisition of Dielectrics Inc. ("Dielectrics") (See Note 13), as well as certain other permitted acquisitions. The Company's obligations under the Amended and Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

The Amended and Restated Credit Agreement calls for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from .25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the Amended and Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Amended and Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. As of September 30, 2018, the applicable interest rate was approximately 3.26% 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 $0.6 million in standby letters of credit as a financial guarantee on worker's compensation insurance policies.

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

	September 30, 2018
Revolving credit facility	$ 16,000
Term loan	17,857
Total long-term debt	33,857
Current portion	(2,857)
Long-term debt, excluding current portion	$ 31,000

Derivative Financial Instruments

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

The Company assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company's debt obligations expose the Company to variability in interest payments due to changes in interest rates. The Company believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, in connection with the Amended and Restated Credit Agreement, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap modifies the Company's interest rate exposure by converting the term loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan. The notional amount was $17,857,142 at September 30, 2018. The fair value of the swap as of September 30, 2018 was approximately $137,000 and is included in other assets. Changes in the fair value of the swap are recorded in other income/expense and resulted in income of approximately $85,000 and $137,000 during the three- and nine-month periods ended September 30, 2018, respectively.

(13) Acquisition

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

Founded in 1954 and based in Chicopee, Massachusetts, Dielectrics is a leader in the design, development, and manufacture of medical devices using thermoplastic materials. They primarily use radio frequency and impulse welding to design and manufacture solutions for the medical industry. In addition to the long-standing customer relationships, they bring to the Company a seasoned management team and a profitable book of business. 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 preliminary 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. The final purchase price allocation may change based on final appraisals, valuations and analysis of the fair value of the acquired assets and assumed liabilities (in thousands):

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

Acquisition costs associated with the transaction were approximately $1.1 million and were charged to expense in the nine-month period ended September 30, 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 three- and nine-month periods ended September 30, 2018 and 2017, as if the Dielectrics acquisition had occurred at the beginning of each of the respective periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Sales	$47,808	$ 46,141	$142,813	$ 143,199
Operating Income	$5,885	$ 4,606	$13,970	$ 14,194
Net Income	$4,134	$ 2,834	$9,700	$ 8,788

Earnings per share:				
Basic	$0.56	$ 0.39	$1.32	$ 1.21
Diluted	$0.56	$ 0.39	$1.31	$ 1.20

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 actually occurred had the Dielectrics acquisition occurred as presented. In addition, future results may vary significantly from the results reflected in such pro forma information.

The amount of revenue and net income of Dielectrics recognized since the acquisition date, which is included in the condensed consolidated statement of income for the nine month period ended September 30, 2018, was approximately $25.1 million and $4.4 million, respectively.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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”). Forward-looking statements include, but are not limited to, statements about the Company’s future operating results, prospects, anticipated trends in the different markets in which the Company competes, including the medical, consumer, automotive, aerospace and defense, electronics and industrial markets, statements regarding the Company's acquisition and integration of Dielectrics and synergies associated with the Dielectrics business, anticipated advantages the Company expects to realize from its investments and capital expenditures, statements about new product offerings and program launches and the expected timing thereof, statements regarding anticipated advantages relating to the Company’s decisions to consolidate its facilities and the expected cost savings and efficiencies associated therewith, statements regarding the end of the Company’s automotive door panel program with Mercedes Benz, the closure of the Company’s Georgia plant and the resulting impact to revenues, anticipated advantages and the timing associated with requalification of parts, anticipated advantages of maintaining fewer, larger plants, expectations regarding the manufacturing capacity and efficiencies of the Company, statements about the Company’s entry into new contracts, and the timing and anticipated advantages associated therewith, statements about the Company’s acquisition opportunities and strategies, the Company’s participation and growth in multiple markets, its business opportunities, the Company’s growth potential and strategies for growth, anticipated revenues and the timing of such revenues, and any indication that the Company may be able to sustain or increase its sales and earnings or sales and earnings growth rates. Investors are cautioned that such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated. New product and program launches are often subject to lengthy manufacturing qualification processes, and the Company cannot assure that it will be able to launch new programs on a timely basis, if at all. New program launches may require significant start-up and other expenses prior to launch, as tooling and related manufacturing processes are developed, and the Company may experience manufacturing inefficiencies in connection with new program launches. As a result, new programs may not generate profits in accordance with anticipated timetables, or at all. Additional risks and uncertainties include, without limitation, risks and uncertainties associated with the Company's acquisition and integration of Dielectrics, risks associated with the effect of the acquisition of Dielectrics on the Company's earnings, risks and uncertainties associated with the identification of suitable acquisition candidates and the successful and efficient execution of acquisition transactions and integration of any acquisition candidates, risks and uncertainties associated with plant closures and consolidations, including the closure of the Company’s Georgia plant and expected efficiencies from consolidating manufacturing, risks and uncertainties associated with the requalification and relocation of parts, risks associated with the implementation of new production equipment and requalification or recertification of transferred equipment in a timely and cost-efficient manner, risks that any benefits from such new equipment may be delayed or not fully realized, or that the Company may be unable to fully utilize its expected production capacity, and risks 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,” “expe
“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 the Company's Annual Report on Form 10-K for the year ended December 31, 2017, 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.

Overview

UFP Technologies is an innovative designer and custom converter of foams, plastics, composites, and natural fiber products, principally serving the medical, consumer, automotive, aerospace and defense, electronics and industrial markets. The Company consists of a single operating and reportable segment. As previously disclosed, on February 1, 2018, the Company acquired Dielectrics, Inc. pursuant to a stock purchase agreement and related agreements for an aggregate purchase price of $77 million net of Dielectrics' cash.

Sales for the Company for the nine-month period ended September 30, 2018 grew 26.3% to $139.8 million from $110.6 million in the same 2017 period largely due to sales of approximately $25.1 million from Dielectrics. Although Dielectrics contributed significantly to earnings, the Company absorbed $1.1 million in transaction costs during the nine-month period ended September 30, 2018 as well as approximately $760,000 in losses associated with the closure of its manufacturing plant in Georgia. Despite these costs, for the nine-month period ended September 30, 2018, the Company generated increases of 46.5% and 52.4% in operating income and net income, respectively.

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

Results of Operations

Sales

Sales for the three-month period ended September 30, 2018 increased approximately 34.0% to $47.8 million from sales of $35.7 million for the same period in 2017. The increase in sales was primarily due to Dielectric's sales of approximately $9.5 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 64.3%, 43.6% and 15.3%, respectively, while sales to customers in the automotive market declined 11.6%. The increase in sales to customers in the medical market was primarily due to sales by Dielectrics as well as a 7.6% 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.

Sales for the nine-month period ended September 30, 2018 increased approximately 26.3% to $139.8 million from sales of $110.6 million for the same period in 2017. The increase in sales was primarily due to Dielectric's sales of approximately $25.1 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 52.8%, 13.6% and 19.4%, respectively, while sales to customers in the automotive market declined 16.8%. The increase in sales to customers in the medical market was primarily due to sales by Dielectrics as well as a 5.4% 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 26.0% for the three-month period ended September 30, 2018, from 23.0% for the same period in 2017. As a percentage of sales, material and labor costs collectively decreased 1.4%, while overhead decreased 1.6%. 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, strategic price increases and an improvement in the overall book of business. The decrease in overhead as a percentage of sales is primarily due to the increase in sales on fixed overhead costs.

Gross margin increased to 25.5% for the nine-month period ended September 30, 2018, from 25.0% for the same period in 2017. As a percentage of sales, material and labor costs collectively decreased 0.5% primarily due to gains in manufacturing efficiencies resulting from continuous improvement initiatives, strategic price increases and an improvement in the overall book of business.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses ("SG&A") increased approximately 14.9% to $6.5 million for the three-month period ended September 30, 2018, from $5.7 million for the same period in 2017. As a percentage of sales, SG&A decreased to 13.7% for the three-month period ended September 30, 2018, from 16.0% for the same three-month period in 2017. The increase in SG&A for the three-month period ended September 30, 2018 is due to approximately $900,000 in SG&A expenses from Dielectrics and the decrease in SG&A as a percentage of sales is primarily due to lower SG&A as a percentage of sales at Dielectrics.

SG&A increased approximately 13.7% to $20.5 million for the nine-month period ended September 30, 2018, from $18.1 million for the same period in 2017. As a percentage of sales, SG&A decreased to 14.7% for the nine-month period ended September 30, 2018, from 16.3% for the same nine-month period in 2017. The increase in SG&A for the nine-month period ended September 30, 2018 is due to approximately $2.6 million in SG&A expenses from Dielectrics. The decrease in SG&A as a percentage of sales is primarily due lower SG&A as a percentage of sales at Dielectrics.

Acquisition Costs

The Company incurred approximately $1.1 million in costs associated with the Dielectrics acquisition which were charged to expense in the nine-month period ended September 30, 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 $343,000 and net interest income of $51,000 for the three-month periods ended September 30, 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.

The Company had net interest expense of approximately $988,000 and net interest income of $108,000 for the nine-month periods ended September 30, 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 tax expense of approximately 26.5% and 33.6% of income before income tax expense for each of the three-month periods ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the current period is largely due to a change in the statutory federal tax rate for 2018 and share-based payment related tax benefits recorded of approximately $36,000. The Company recorded tax expense of approximately 25.4% and 33.3% of income before income tax expense for each of the nine-month periods ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the current period is largely due to a change in the statutory federal tax rate for 2018 and share-based payment related tax benefits recorded of approximately $220,000. 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.

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the “2017 Tax Act”), resulting in significant modifications to existing law. The 2017 Tax Act effected a reduction in the corporate tax rate from 35% to 21%, and changed executive compensation limitations under IRC Section 162(m), among other changes. The Company made what it considers to be a reasonable estimate of the impact of the 2017 Tax Act in its financials for the year ended December 31, 2017. The Company has not recorded any changes to this estimate for the three month period ended September 30, 2018.

Staff Accounting Bulletin (“SAB”) No. 118, issued by the Securities and Exchange Commission (“SEC”), provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the 2017 Tax Act. In accordance with SEC guidance, provisional amounts may be refined as a result of additional guidance from, and interpretations by, U.S. regulatory and standard-setting bodies and changes in assumptions. In the subsequent period, provisional amounts will be adjusted for the effects, if any, of interpretative guidance issued after December 31, 2017 by the U.S. Department of the Treasury.

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 nine-month period ended September 30, 2018 was approximately $13.5 million and was primarily a result of net income generated of $9.9 million, depreciation and amortization of approximately $5.8 million, share-based compensation of $1.0 million, an increase in deferred taxes of $1.0 million, an increase in accounts payable of $2.2 million due to the timing of vendor payments in the ordinary course of business, an increase in deferred revenue of approximately $1.4 million due primarily to advanced billings on customer tooling projects and an increase in other liabilities of approximately $0.3 million. These cash inflows and adjustments to income were offset by an increase in accounts receivable of approximately $4.4 million primarily due to increased sales in the last two months of the third quarter of 2018 over the same period of 2017, an increase in inventory of approximately $2.6 million primarily due to in-process customer tooling and the building of inventory to support the higher sales, an increase in prepaid expenses of approximately $0.3 million, an increase in other assets of approximately $0.4 million, and a decrease in accrued expenses of approximately $0.4 million due to payments of year-end variable compensation.

Net cash used in investing activities during the nine-month period ended September 30, 2018 was approximately $81.4 million and was primarily the result of the acquisition of Dielectrics and additions of manufacturing machinery and equipment and various building improvements across the Company.

Net cash provided by financing activities was approximately $35.0 million during the nine-month period ended September 30, 2018, representing borrowings under our credit facility to fund the Dielectrics acquisition of $56.0 million and net proceeds received upon stock options exercises of approximately $1.3 million, partially offset by repayments on our credit facility and term loan of approximately $22.1 million, and payments of statutory withholding for stock options exercised and restricted stock units vested of approximately $0.2 million.

Outstanding and Available Debt

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

On February 1, 2018, the Company, as the borrower, entered into an unsecured $70 million Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") with certain of the Company's subsidiaries (the

“Subsidiary Guarantors”) and Bank of America, N.A., in its capacity as the initial lender, Administrative Agent, Swingline Lender and L/C Issuer, and certain other lenders from time to time party thereto. The Amended and Restated Credit Agreement amends and restates the Company’s prior credit agreement.

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

The Amended and Restated Credit Facilities call for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank’s prime rate less a margin that ranges from .25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the Amended and Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Amended and Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments.

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Included in the Amended and Restated Credit Facilities were approximately $0.6 million in standby letters of credit as a financial guarantee on worker's compensation insurance policies. As of September 30, 2018, the Company was in compliance with all covenants under the credit facility.

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

	September 30, 2018
Revolving credit facility	$ 16,000
Term loan	17,857
Total long-term debt	33,857
Current portion	(2,857)
Long-term debt, excluding current portion	$ 31,000

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 Facilities. The Company generated cash of approximately $13.5 million in operations during the nine months ended September 30, 2018; however, the Company cannot guarantee that its operations will generate cash in future periods. The Company's longer-term liquidity is contingent upon future operating performance.

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

Stock Repurchase Program

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. The Company did not repurchase any shares of its common stock under this program in the first nine months of 2018. Through September 30, 2018, the Company repurchased a total of 29,559 shares of its common stock under this program at a cost of approximately $587,000. At September 30, 2018, approximately $9.4 million was available for future repurchases of the Company’s common stock under this authorization.

Commitments and Contractual Obligations

There have been no material changes outside the ordinary course of business to our contractual obligations and commitments, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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 September 30, 2018, there was approximately $0.6 million in standby letters of credit as a financial guarantee on worker’s compensation insurance policies.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks as previously disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 4: CONTROLS AND PROCEDURES

As of the end of the period covered by this report (the "Evaluation Date"), the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in SEC Rule 13a-15(e) or 15d-15(e)). 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 were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, 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 the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Company closed the acquisition of Dielectrics on February 1, 2018, and Dielectrics' total assets and revenues constituted 42.4% and 18.0%, respectively, of the Company's consolidated total assets and revenues as shown on our consolidated financial statements as of and for the nine months ended September 30, 2018. As the acquisition occurred in the first quarter of fiscal 2018, the Company excluded Dielectrics' internal control over financial reporting from the scope of the assessment of the effectiveness of the Company's disclosure controls and procedures. This exclusion is in accordance with the general guidance issued by the Staff of the Securities and Exchange Commission that an assessment of a recently-acquired business may be omitted from the scope in the year of acquisition, if specified conditions are satisfied.

An evaluation was also performed under the supervision and with the participation of our management, including the Company's Chief Executive Officer and Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Except as described above, that evaluation did not identify any change in the Company's internal control over financial reporting that occurred during our latest fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The adoption of Accounting Standards Codification 606, *Revenue from Contracts with Customers ("ASC 606")*, did not require significant changes in our internal controls over financial reporting or disclosure controls and procedures.

However, the Company made enhancements to existing controls and procedures to ensure compliance with the new guidance.

PART II: OTHER INFORMATION

ITEM 1A: RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Part 1 - Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer's 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. The Company did not repurchase any shares of its common stock under this program in the first nine months of 2018. Through September 30, 2018, the Company had repurchased a total of 29,559 shares of its common stock under this program at a cost of approximately $587,000. At September 30, 2018, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

ITEM 6: EXHIBITS

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.*
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.*
32.1	Certifications 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.*

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* Filed herewith.
** Furnished herewith.

SIGNATURES

Pursuant to the requirements 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: November 9, 2018 By: /s/ R. Jeffrey Bailly
R. Jeffrey Bailly

Chairman, Chief Executive Officer, President, and Director

(Principal Executive Officer)

Date: November 9, 2018 By: /s/ Ronald J. Lataille
Ronald J. Lataille

Chief Financial Officer

(Principal Financial Officer)