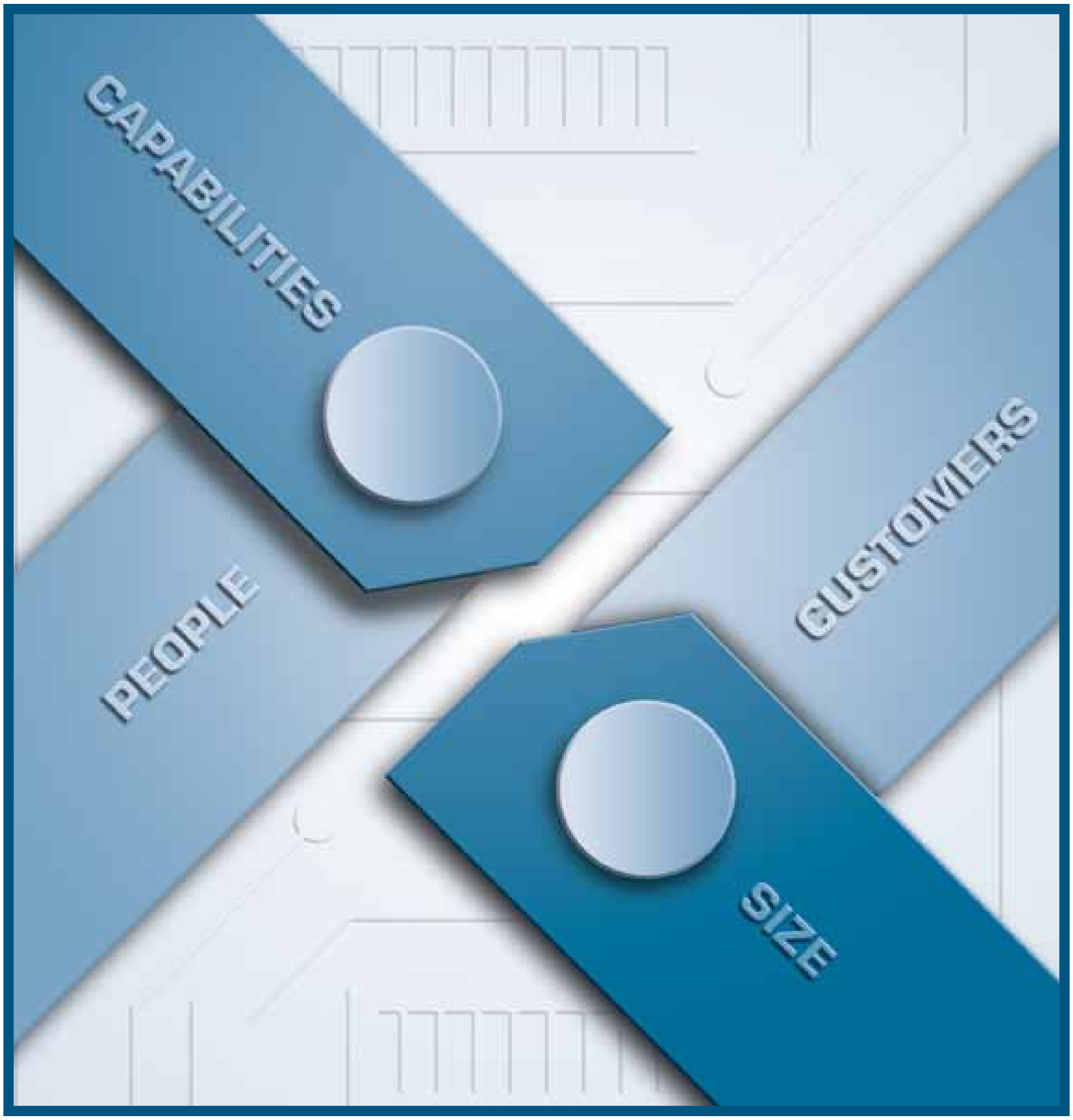


LEVERAGING OUR UNIQUE ASSETS

UFP TECHNOLOGIES

2006 ANNUAL REPORT

2006 ANNUAL REPORT

CONTENTS

UFP Technologies, Inc. (Nasdaq: UFPT) is a leading supplier of custom-engineered packaging solutions and component products.

The Engineered Packaging Division designs and manufactures interior protective packaging solutions using molded fiber, vacuum formed plastics, and molded and fabricated foam plastics.

The Component Products Division designs and manufactures engineered component solutions using laminating, molding and fabrication technologies.

Our customers include leading companies in six target markets: automotive, computers and electronics, medical, aerospace and defense, consumer and industrial. Learn more about us at www.ufpt.com.

DEAR FELLOW SHAREHOLDER:

2006 was a terrific year for our company, a year of record sales, record profits and record cash flow. Sales rose 12%, fueled by growth in key markets like military, medical and automotive. Operating income more than doubled, and earnings per share more than tripled. And we reduced debt by $8.7 million, thanks to a blend of stronger earnings, leaner inventories and better receivable collections.

We also made significant progress in improving our operational efficiencies, which will remain a high priority in 2007 and beyond. From making smarter pricing decisions to improving the flow of information across the company, we're on a mission to execute more efficiently, and find new ways to optimize the quality, value and speed of every customer interaction.

Last year, for instance, we completed a pilot project in our largest facility that helped us streamline our delivery of products and services, and respond more quickly to customer requests. Now we are implementing these initiatives throughout the organization – an excellent example of how we leverage our successes and share best practices. Our people, our customers, our technical capabilities, our size and breadth: These are some of the things that make UFP unique. In this year's annual report, we'll discuss our distinctive combination of assets and the various ways we leverage them for maximum advantage.

For example, our ten plants around the country give us unmatched geographic coverage and great purchasing power. Our diverse capabilities make us the supplier of choice for many complex, high-value applications. Our long-standing relationships with customers and vendors provide an incredible foundation for growth. And our culture of integrity, customer focus and innovation helps us attract the highly skilled people we need to continuously sharpen our competitive edge and meet customer needs in ever more efficient and productive ways.

In another important 2006 initiative, we organized our sales and marketing team into three main product groups: United Foam, Molded Fiber and Simco Automotive. While all three groups share skills, expertise and access to innovative new materials, each serves a unique market and offers unique advantages to customers.

United Foam uses many of the the industry's most advanced materials and conversion techniques to create custom packaging and component solutions from foams, plastics and specialty fabrics.

Molded Fiber converts 100% recycled paper into cost-effective, environmentally friendly interior packaging solutions that save space and offer excellent protection.

Simco Automotive provides high-quality interior car components, made from a wide range of advanced moldable materials, that deliver an array of cost and performance advantages.

Developing a distinct brand for each group will help the company communicate these benefits to our target markets more effectively.

Moving forward, we will continue to focus on the three key strategic tenets that have served us well. The first, as mentioned, is to leverage the size and breadth of UFP. The second is to increase the value UFP brings to its customers. The third is to position UFP for long-term growth. We believe that constantly finding new ways to advance these core objectives will enable UFP to exceed customer expectations and meet its financial goals.

In 2007, we will continue to invest in systems to help us monitor our success and measure profitability by project, customer and market more accurately, so we can apply our resources to the opportunities that fit us best. We will continue to sharpen our sales and operational initiatives to deliver greater value to customers and shareholders. And we will pursue acquisition opportunities that help solidify our status as one of North America's most innovative and valued converters of foams, plastics and natural fiber materials.

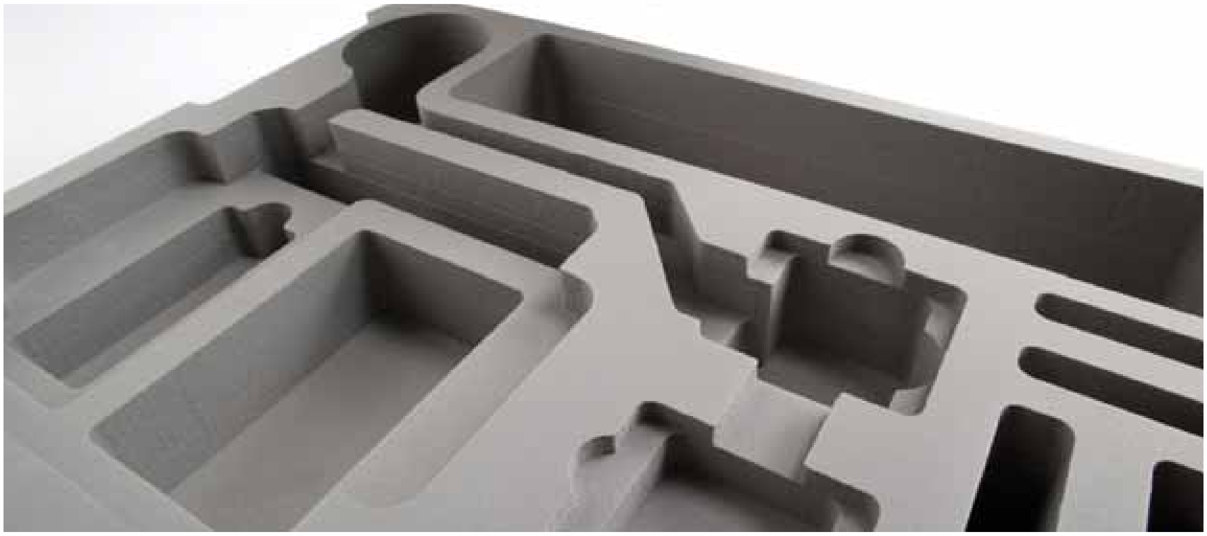
In closing, this year of significant achievement for our company included one event of great sadness: the death of co-founder William Shaw, our longtime President, Treasurer and Chairman. Bill was a highly respected leader, and a man of great integrity, warmth and wisdom. Our tribute to Bill is on the inside back cover of this annual report, which we respectfully dedicate to his memory.

Sincerely,

R. Jeffrey Bailly

R. Jeffrey Bailly
Chairman, CEO and President

LEVERAGING OUR CUSTOMERS



Industry-leading companies trust UFP to meet more of their complex product and packaging challenges.

IBM. FedEx. Lockheed Martin. Johnson Controls. Canon. Bose. Yankee Candle. Johnson & Johnson. DePuy. Many of our customers are leaders in their industries, as we are in ours. And that's no coincidence. These companies have complex product and packaging challenges and very stringent quality standards, and they know UFP has a unique ability to meet them. Once we demonstrate our value and earn their trust, they often want us to provide additional products and services – even nontraditional ones like fulfillment and kitting. It's happened again and again, and we're more than happy to be of service.

At UFP, one of our key advantages is our ability to match innovative new materials with customer needs. It's all about understanding our customers' challenges and goals, then combining our materials expertise with our engineering and precision fabrication skills to create the ideal solution.

A great example is our new clean room pipe insulation product called T-Tubes™. Originally designed to serve the needs of our biotech and pharmaceutical customers, it's based on a new material developed by Zotefoams, one of our key partners and suppliers. Because it can withstand temperatures from -55° F to 311° F, it's ideal for insulating both hot and cold pipes. After analyzing our customer challenges, we used this unique material to create a product that greatly enhances safety and quality. It also reduces the thickness of insulating material needed in clean room environments, creating more usable production space. It's a major advance for our customer base. And we've identified several other industries, including semiconductor and chemical, that can also benefit – illustrating how one breakthrough solution can open many additional doors.

LEVERAGING OUR PEOPLE

Our ability to attract and retain the industry's top talent is a major competitive advantage.

Every year, the challenges we face grow more sophisticated. So does our ability to meet them in new, inventive ways. That's a direct result of our dedicated employees, who thrive in an atmosphere of continuous innovation and improvement.

Just as they transform raw materials into superior products, our people are constantly working to transform UFP into a stronger, faster, more efficient organization. Whether that means responding more quickly to opportunities, researching new materials, improving our processes, pursuing acquisitions and partnerships, or taking service to new levels, our people are passionate in their commitment to excellence. Just ask any customer or business partner.

We believe our entrepreneurial culture of integrity and respect is the key to attracting and retaining the best talent. When employees join our company, they know their ideas will be heard, their creativity will be valued, and they'll be given every opportunity to grow and advance. We continuously search for skilled, motivated people who can thrive in a work environment that's highly challenging and demanding, yet also rewarding and fun. Then we invest in the training and development programs they need to perform at their best – because we know those investments will be repaid many times over.

LEVERAGING OUR CAPABILITIES

With extensive in-house engineering and manufacturing resources, we can solve more customer problems in more ways.

Knowledge of the latest materials. Cutting-edge processing techniques. Sharp insight into customer needs. These are the kinds of attributes UFP prides itself on. We want our customers to rely on us for their most critical applications, the ones that require the highest levels of innovation, reliability and quality. Whether it's an automotive part that needs to be lighter and stronger, or a medical component made in a clean room environment to exacting tolerances, we strive to create cutting-edge solutions that use our full range of capabilities to help our customers compete and win.

We offer customers something we consider very important: a "materials-neutral" approach to problem solving. Unlike many competitors, we're not wedded to any particular material or process. Rather, with our integrated design, engineering, tooling and manufacturing skills, we can choose the technologies, material and approach best suited to any given challenge.

This approach has helped us become the supplier of choice for customers in industries that require absolute quality and adherence to rigid specifications, like medical, military and automotive. They appreciate our ability to engineer custom solutions with innovative combinations of materials. They also value the fact that we do our processing in-house. And they see us as not just another vendor, but as an important partner in their success.

LEVERAGING OUR SIZE & BREADTH

With plants throughout the country, we can deliver high-quality solutions more efficiently, and implement best practices more easily.

Operating out of ten U.S. locations, and with 2006 sales of \$93.7 million, UFP enjoys geographic coverage and economies of scale few competitors can match. This benefits our company and our customers in a number of ways.

One is speed to market. Customers today are extremely sensitive to product lead times and freight costs. In this age of leaner inventories, they like knowing our solutions can be delivered quickly and cost-effectively from a nearby location. Our size also gives us power to negotiate excellent raw material costs, and to keep our prices competitive without sacrificing quality. These attributes help us offer a value proposition that's hard to beat. Customers know we can provide superior solutions more quickly and cost-effectively than our competitors can. And that's a major advantage for any company, anywhere.

We work to leverage the size and breadth of UFP in many other ways. Once best practices are identified in one plant, we roll them out systematically to other locations. Leveraging our successes helps us to constantly improve the way we solve problems and serve customers. Also, we are always working to provide more products and services to our existing customers, and identify new customers that best fit our capabilities. Our network of plants and contacts around the country helps us meet both objectives. And as we identify customers and markets that offer growth potential, we will not hesitate to respond decisively, either by acquiring a local competitor or by opening a new facility to capitalize on the opportunity.

SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2006, is derived from the audited consolidated financial statements of the Company. The consolidated financial statements for fiscal years 2004, 2003, and 2002 were audited by PricewaterhouseCoopers LLP. The data should be read in conjunction with the consolidated financial statements and the related notes included in this report, and in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

SELECTED CONSOLIDATED FINANCIAL DATA

	Years Ended December 31 *(in thousands, except per share data)*				
Consolidated statement of operations data:[1]	**2006**[2]	**2005**[2]	**2004**[2]	**2003**[2 3 4]	**2002**[4 5]
Net sales	$ 93,749	$ 83,962	$ 68,624	$ 60,902	$ 61,189
Gross profit	19,237	14,601	13,971	10,724	12,105
Operating income (loss)	5,054	2,171	2,144	(1,508)	466
Net income (loss)	2,515	659	871	(1,516)	(234)
Diluted earnings (loss) per share	$ 0.45	$ 0.14	$ 0.17	$ (0.34)	$ (0.05)
Weighted average number of diluted shares outstanding	5,571	5,261	4,995	4,490	4,343

	Years Ended December 31 *(in thousands)*				
Consolidated balance sheet data:[1]	**2006**[2]	**2005**[2]	**2004**[2]	**2003**[2]	**2002**
Working capital	$ 8,236	$ 3,321	$ 1,431	$ 1,209	$ 1,540
Total assets	39,037	44,000	39,632	36,749	35,383
Short-term debt and capital lease obligations	1,767	9,716	9,484	8,173	7,169
Long-term debt and capital lease obligations, excluding current portion	6,921	7,650	7,497	8,119	6,851
Total liabilities	20,412	29,239	25,846	24,058	21,332
Stockholders' equity	$ 18,625	$ 14,761	$ 13,787	$ 12,691	$ 14,050

[1] See Note 18 to the consolidated financial statements for segment information.

[2] Amounts include the consolidation of United Development Company Limited, a 26.32%-owned real estate limited partnership. See Note 1 to the consolidated financial statements.

[3] Amounts include restructuring charges of $1.4 million.

[4] In years where the Company reported a net loss, basic and diluted earnings per share and weighted average shares outstanding are the same.

[5] Amounts include results of operations of the business of Excel Acquisition Group (acquired in January 2002) for the periods subsequent to its acquisition.

MARKET PRICE

From July 8, 1996, until April 18, 2001, the Company's Common Stock was listed on the Nasdaq National Market under the symbol "UFPT." Since April 19, 2001, the Company's Common Stock has been listed on the Nasdaq Capital Market (formerly known as the Nasdaq Small Cap Market). The following table sets forth the range of high and low quotations for the Common Stock as reported by Nasdaq for the quarterly periods from January 1, 2005, to December 31, 2006:

Fiscal Year Ended December 31, 2005	High	Low
First Quarter	$ 6.39	$ 3.11
Second Quarter	5.88	2.94
Third Quarter	4.25	3.25
Fourth Quarter	3.65	2.17

Fiscal Year Ended December 31, 2006	High	Low
First Quarter	$ 3.70	$ 2.22
Second Quarter	7.69	3.08
Third Quarter	7.99	4.88
Fourth Quarter	5.76	4.15

NUMBER OF STOCKHOLDERS

As of February 15, 2007, there were 104 holders of record of the Company's Common Stock.

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

DIVIDENDS

The Company did not pay any dividends in 2006, although prior to becoming a public company in December 1993, the Company had from time to time paid cash dividends on its capital stock. The Company presently intends to retain all of its earnings to provide funds for the operation of its business, although it would consider paying cash dividends in the future. The Company's ability to pay dividends is subject to approval by its principal lending institution.

STOCK PLANS

The Company maintains three stock option plans to provide long-term rewards and incentives to the Company's key employees, officers, employee directors, non-employee directors and advisors. The first plan (1993 Employee Stock Option Plan) provides for the issuance of up to 1,550,000 shares of the Company's common stock. The second plan (1993 Director Plan) provided for the issuance of 110,000 shares of the Company's common stock to non-employee directors; this plan was frozen with the inception of the 1998 Director Plan, which provides for the issuance of up to 725,000 shares of the Company's common stock to non-employee directors. Additional details of these plans are discussed in Note 12 to the consolidated financial statements.

The Company also maintains an Employee Stock Purchase Plan, which is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986.

The Company also maintains a Stock Plan (2003 Equity Incentive Plan) to provide the Company with the ability to offer equity-based incentives to present and future executives and other employees who are in a position to contribute to the long-term success and growth of the Company.

Each of these plans and their amendments have been approved by the Company's stockholders.

Summary plan information as of December 31, 2006, is as follows:

	Number of shares of UFPT common stock to be issued[1]	Weighted average exercise price of outstanding options	Number of shares of UFPT common stock remaining available for future issuance
1993 Employee Plan	731,875	2.18	315,043
1993 Director Plan	20,000	4.13	0
1998 Director Plan	404,184	2.71	168,652
Total Option Plans	**1,156,059**	**2.40**	**483,695**
1998 Employee Stock Purchase Plan	0	0.00	101,672
2003 Equity Incentive Plan	144,000	0.00	164,834
Total All Stock Plans	**1,300,059**	**0.00**	**750,201**

[1] Will be issued upon exercise of outstanding options or vesting of stock unit awards.

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

This report contains certain statements that are "forward-looking statements" as that term is defined under the Act and releases issued by the Securities and Exchange Commission. The words "believe," "expect," "anticipate," "intend," "plan," "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. The Company's plans, described below, to execute a program which launched in the fourth quarter of 2004 for an automotive supplier that could be as large as $95 million is an example of a forward-looking statement. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements.

The $95 million revenue value of the automotive contract is an estimate, based on the automotive supplier's projected needs. The Company cannot guarantee that it will fully benefit from this contract, which is terminable by the automotive supplier for any reason, subject to a cancellation charge that includes, among others, a provision whereby the customer will reimburse the Company for its total capital investment less any depreciation taken. The Company's revenues from this contract are directly dependent on the ability of the automotive supplier to develop, market and sell its products in a timely, cost-effective manner. If the automotive supplier's needs decrease over the course of the contract, the Company's estimated revenues from this contract may also decrease. Even if the Company generates revenue from the project, the Company cannot guarantee that the project will be profitable, particularly if revenues from the contract are less than expected. Other examples of these risks, uncertainties, and other factors include, without limitation, the following: (i) economic conditions that affect sales of the products of the Company's packaging customers; (ii) actions by the Company's competitors and the ability of the Company to respond to such actions; (iii) the ability of the Company to obtain new customers; and (iv) the ability of the Company to execute and integrate favorable acquisitions. In addition to the foregoing, the Company's actual future results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth elsewhere in this report and changes in general economic conditions, interest rates and the assumptions used in making such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

INVESTMENT IN AND ADVANCES TO AFFILIATED PARTNERSHIP

The Company has a 26.32% ownership interest in a realty limited partnership, United Development Company Limited ("UDT"). As a result of adopting the provisions of FIN 46(R), the Company has consolidated the financial statements of UDT as of December 31, 2003, because—when including related party ownership—the Company effectively owns greater than 50% of UDT. Prior to December 31, 2003, this investment was accounted for under the equity method at cost, plus the Company's proportionate share of the limited partnership's income, less any distributions received from the limited partnership.

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 operations:

	2006	2005	2004
Net sales	100.0%	100.0%	100.0%
Cost of sales	79.5	82.6	79.6
Gross profit	20.5	17.4	20.4
Selling, general and administrative expenses	15.1	14.8	17.7
Restructuring charge	0.0	0.0	(0.4)
Operating income	5.4	2.6	3.1
Total other expenses, net	1.1	1.6	1.1
Income before income taxes	4.3	1.0	2.0
Expense for income taxes	1.6	0.2	0.7
Net income	2.7	0.8	1.3

OVERVIEW

UFP Technologies is an innovative designer and custom converter of foams, plastics and fiber products. The Company serves a myriad of markets, but specifically targets opportunities in the automotive, computers and electronics, medical, aerospace and defense, industrial and consumer markets.

During 2005, the Company absorbed costs associated with the launch of several new programs in its automotive operations in Michigan, as well as in its large, estimated $95 million program in the Southeast that caused significant losses in its automotive business unit. These costs were in the form of higher-than-anticipated scrap rates and additional direct labor requirements that, combined, caused significant losses in this business unit. In 2006, the Company enjoyed materially better results in its automotive business unit. However, the automotive market remains very challenging, with orders often below customer forecasts and pressure from customers to reduce prices.

During 2005, the Company was faced with significant raw material price increases and, in some cases, shortages due to high oil and natural gas prices, Asian demand for the same raw materials and the impact of Hurricanes Katrina and Rita on petrochemical plants along the Gulf coast. The majority of raw materials used by the Company—polyurethane and polyethylene foams—utilize petroleum-based resins in their production. In 2006, prices have stabilized and, in some cases, were lower.

During 2006, demand remained strong from customers in the aerospace and defense and medical industries. Military efforts in Iraq and elsewhere have created demand for molded uniform and gear components from the Company's Component Products division. The aging population needing more medical care has kept demand high for medical packaging products, medical device components, dental products and orthopedic components. The strong demand from customers in these markets, coupled with increased sales from the large automotive contract, generated record sales for the Company in 2006.

2006 COMPARED TO 2005

The Company's net sales increased 11.7% to $93.7 million for the year ended December 31, 2006, from $84 million in 2005. Component Product sales increased 15.8% to $55.8 million in 2006 from $48.2 million in 2005. The increase in sales is primarily due to increased sales from recently launched automotive programs, as well as strong demand from customers in the medical and military markets. Packaging sales increased 6.4% to $38.0 million in 2006 from $35.7 million in 2005. The increase in sales is primarily due to stronger demand for electronics packaging products and fiber packaging.

Gross profit as a percentage of sales ("Gross Margin") increased to 20.5% in 2006 from 17.4% in 2005. The improvement in gross margin is primarily attributable to the fixed portion of labor and overhead measured against higher sales in both the Component Product and Packaging segments, and the reduction in labor from 2005 when the Company incurred excess labor associated with the launch of several automotive programs. The material portion of cost-of-sales was slightly higher as a percent of sales in 2006 due primarily to the new automotive programs comprising a higher portion of sales.

Selling, General and Administrative Expenses ("SG&A") increased 14.1% to $14.2 million for the year ended December 31, 2006, from $12.4 million in 2005. As a percentage of sales, SG&A was 15.1% and 14.8% in the years ended December 31, 2006 and 2005, respectively. The increase in SG&A

spending is primarily attributable to equity-based compensation resulting from the implementation of SFAS 123 (R) (Component Product and Packaging segments), increased corporate governance and compliance costs (Component Product and Packaging segments) and incremental SG&A within the automotive business unit (Component Product segment).

Interest expense decreased to $964,000 for the year ended December 31, 2006, from approximately $1,041,000 in 2005. The decrease in interest expense is primarily attributable to lower average borrowings partially offset by the impact of higher interest rates.

The Company recorded income tax expense of 37% and 24% for the years ended December 31, 2006 and 2005, respectively. The low effective tax rate for 2005 reflects research and development tax credits taken on the Company's tax returns. The Company has deferred tax assets on its books associated with net operating losses generated in previous years. The Company has considered both positive and negative available evidence in its determination that the deferred tax assets will be realized, and has not recorded a tax valuation allowance at December 31, 2006. The Company expects to utilize a significant amount of its federal NOLs when it prepares its 2006 tax returns. The Company will continue to assess the realizability of deferred tax assets created by recording tax benefits on operating losses and, where appropriate, record a valuation allowance against these assets. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term, if estimates of future taxable income during the carryforward period are reduced.

2005 COMPARED TO 2004

The Company's net sales increased 22.4% to $84.0 million for the year ended December 31, 2005, from $68.6 million in 2004. Component Product sales increased 33.4% to $48.2 million in 2005 from $36.1 million in 2004. The increase in sales is primarily due to sales from recently launched automotive programs as well as strong demand from customers in the medical and military markets. Packaging sales increased 10% to $35.7 million in 2005 from $32.5 million in 2004. The increase in sales is primarily due to growth in sales at the Company's plant in El Paso, Texas, and stronger demand for case insert product. The Company continued to invest in the area of marketing and sales in 2005 and attributes a portion of the Company's sales growth in 2005 to these investments.

Gross profit as a percentage of sales ("Gross Margin") decreased to 17.4% in 2005 from 20.4% in 2004. The decline in gross margin is primarily attributable to the impact of high material scrap rates and direct labor associated with new automotive contracts partially offset by improvements from the fixed portion of labor and overhead measured against higher sales in both the Component Product and Packaging segments.

Selling, General and Administrative Expenses ("SG&A") increased 2.7% to $12.4 million for the year ended December 31, 2005, from $12.1 million in 2004. As a percentage of sales, SG&A was 14.8% and 17.6% in the years ended December 31, 2005 and 2004, respectively. The increase in SG&A dollars is primarily attributable to continued investments made in the areas of marketing and sales (Component Product and Packaging segments), increased corporate governance and compliance costs (Component Product and Packaging segments) and incremental SG&A within the automotive business unit (Component Product segment).

Interest expense increased to $1,041,000 for the year ended December 31, 2005, from approximately $714,000 in 2004. The increase in interest expense is primarily attributable to higher average interest rates, as well as higher average debt balances in the Company's revolving credit facility due to sales growth.

The Company recorded income tax expense of 24% and 35.9% for the years ended December 31, 2005 and 2004, respectively. The low effective tax rate for 2005 reflects research and development tax credits taken on the Company's tax returns. The Company has deferred tax assets on its books associated with net operating losses generated in previous years. The Company has considered both positive and negative available evidence in its determination that the deferred tax assets will be realized, and has not recorded a tax valuation allowance at December 31, 2005. The Company will continue to assess the realizability of deferred tax assets created by recording tax benefits on operating losses and, where appropriate, record a valuation allowance against these assets. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term, if estimates of future taxable income during the carryforward period are reduced.

GOODWILL

Amortization of Goodwill and certain indefinite lived intangible assets ceased with the adoption of SFAS 142, effective January 1, 2002.

LIQUIDITY AND CAPITAL RESOURCES

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

As of December 31, 2006 and 2005, working capital was $8,236,000 and $3,321,000, respectively. The increase in working capital is primarily attributable to the lower amount outstanding on the revolving credit facility of approximately $8.0 million, lower accounts payable balances of approximately $1.4 million and higher cash balances of approximately $750,000, partially offset by lower accounts receivable of approximately $3.7 million due to strong collection efforts and increased accrued expenses of approximately $1.3 million. Cash provided from operations was $12.1 million and $1.0 million in 2006 and 2005, respectively. The primary reason for the increase in cash generated from operations in 2006 is stronger earnings and the large reduction in accounts receivables. Net cash used in investing activities in 2006 was approximately $1.8 million and was used primarily for the acquisition of new manufacturing equipment. In 2006, the Company spent approximately $300,000 for the acquisition of significantly all of the assets of Stephen Packaging Corp.

On February 28, 2003, the Company obtained a credit facility, which has been amended effective March 24, 2004; June 28, 2004; and November 21, 2005, to reflect, among other things, changes to certain financial covenants. The amended facility is comprised of: (i) a revolving credit facility of $17 million that is collateralized by the Company's accounts receivable and inventory; (ii) a term loan of $3.7 million with a 7-year straight-line amortization that is collateralized by the Company's property, plant and equipment (excluding UDT's property, plant and equipment); and (iii) a term loan of $2.3 million with a 15-year straight-line amortization that is collateralized by a mortgage on the Company's real estate located in Georgetown, Massachusetts. Extensions of credit under the revolving credit facility are subject to available collateral based upon accounts receivable and inventory levels. Therefore, the entire $17 million may not be available to the Company. For example, as of December 31, 2006, based upon no revolving credit facility borrowings outstanding and collateral levels, the Company had availability of $12.3 million of credit under this facility. The amount of availability can fluctuate significantly. The amended credit facility calls for interest of Prime or LIBOR plus a margin that ranges from 1.0% to 1.5%, depending upon Company performance. All borrowings at December 31, 2006, had interest computed at Prime or LIBOR plus 1.0%. Under the amended credit facility, the Company is subject to certain financial covenants, including maximum capital expenditures and minimum fixed-charge coverage. As of December 31, 2006, the Company was in compliance with all of these covenants. The Company's $17 million revolving credit facility, as amended, is due February 28, 2009; the $3.7 million term loan and the $2.3 million mortgage are due November 21, 2011. At December 31, 2006, the interest rate on these facilities ranged from 6.4% to 8.25%.

As a result of the consolidation of United Development Company Limited, a mortgage note collateralized by the Alabama and Florida facilities, dated September 4, 2002, originally for $470,313, is included within long-term debt in the consolidated financial statements. The note calls for 50 principal payments of $3,406 and one payment of $388,967 due on March 4, 2007. The note bears interest at LIBOR plus 2.75%, adjusted monthly. At December 31, 2006, the outstanding balance was $395,779. At December 31, 2006, the interest rate was approximately 8.1%. Payments on this note are funded through rent payments that the Company makes on its Alabama and Florida facilities. The Company is not subject to any financial covenants under this mortgage note.

In addition to the above credit facilities, the Company has capital lease debt of $3,006,063 as of December 31, 2006. These loans are secured by specific manufacturing equipment used by the Company and have remaining lives ranging from one to six years and bear interest at rates ranging from 6.4% to 10%.

The Company has no significant capital commitments in 2007, but plans on adding capacity to enhance operating efficiencies in its manufacturing plants. The Company may consider the acquisition of companies, technologies or products in 2007, which are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash generated from operations and funds expected to be available to it through any necessary equipment financing and additional bank borrowings, will be sufficient to fund its cash flow requirements through at least the end of 2007. However, there can be no assurances that such financing will be available at favorable terms, if at all.

COMMITMENTS, CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table summarizes the Company's contractual obligations at December 31, 2006, and the effect such obligations are expected to have on its cash flow in future periods:

Payments due in:	Operating Leases	Capital Leases	Term Loans	Mortgage Loan	UDT Mortgage	Debt Interest	Supplemental Retirement	Total
2007	$1,645,615	$688,991	$526,572	$156,000	$395,779	$516,673	$244,000	$4,173,630
2008	684,816	704,408	526,572	156,000	—	421,661	108,000	2,601,457
2009	473,895	702,765	526,572	156,000	—	324,945	104,000	2,288,177
2010	405,915	671,839	526,572	156,000	—	230,564	101,000	2,091,890
2011 & thereafter	1,220,334	238,060	1,009,260	1,547,000	—	543,781	381,000	4,939,435
	$4,430,575	**$3,006,063**	**$3,115,548**	**$2,171,000**	**$395,779**	**$2,037,624**	**$938,000**	**$16,094,589**

Payments on the United Development Company Limited note are funded through rent payments made by the Company on the Company's Alabama and Florida facilities.

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, 2006, it cannot guarantee that its operations will generate cash in future periods.

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

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 and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, including current and anticipated worldwide economic conditions, both in general and specifically in relation to the packaging industry, 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 Form 10-K. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

The Company has reviewed these policies with its Audit Committee.

- **Revenue Recognition** The Company recognizes revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of its obligation is complete, its price to the buyer is fixed or determinable and the Company is reasonably assured of collecting. If a loss is anticipated on any contract, a provision for the entire loss is made immediately. Determination of these criteria, in some cases, requires management's judgments. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue for any reporting period could be adversely affected.
- **Long-Lived Assets and Intangible Assets** The Company reviews long-lived assets and all intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Goodwill is reviewed at least annually for impairment. Beginning in 2005, the Company changed its annual goodwill impairment testing date from the second quarter to the fourth quarter of its fiscal year. The Company believes this new accounting method is preferable, since more complete and accurate information to assess goodwill for impairment is available in the fourth quarter, including actual financial performance to date and information relative to the carrying value of assets. There is no financial impact as of the year ended December 31, 2006, or on any prior periods, as a result of this change in accounting method. Recoverability of long-lived assets and definite lived intangible assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then long-lived assets are written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets. Recoverability of goodwill is determined under a two-step process as described in SFAS 142. The fair value of reporting units determined under step one is also based on a discounted cash flow model. At December 31, 2006, no impairment has been identified. Forecasted cash flows are based upon numerous assumptions used by management, such as revenue growth, margins and asset management. For purposes of this analysis, the Company reviews its internal forecasts and external data. The external data consist of data available from customer and competitor commentary, and industry forecasts of future revenue growth.

  The estimates of expected cash flows require the Company to make significant judgments regarding future periods that are subject to some factors outside of the Company's control. Changes in these estimates can result in significant revisions to the carrying value of these assets and may result in material charges to the results of operations.
- **Accounts Receivable** The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. These allowances for doubtful accounts are determined by reviewing specific accounts that the Company has deemed are at risk of being uncollectible and other credit risks associated with groups of customers. If the financial condition of the Company's customers were to deteriorate or economic conditions were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required with a resulting charge to results of operations.
- **Inventory** The Company provides reserves for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. The Company fully reserves for inventories deemed obsolete. The Company performs periodic reviews of all inventory items to identify excess inventories on hand by comparing on-hand balances to anticipated usage using recent historical activity as well as anticipated or forecasted demand, based upon sales and marketing inputs through its planning systems. If estimates of demand diminish or actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required with a resulting charge to operations.
- **Deferred Income Taxes** 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 net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

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, 2006, 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. The Company has four debt instruments where interest is based upon the Prime rate (and/or LIBOR) and, therefore, future operations could be affected by interest rate changes; however, the Company believes that the market risk of the debt is minimal.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
UFP Technologies, Inc.
Georgetown, MA

We have audited the accompanying consolidated balance sheets of UFP Technologies, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. Our audit also included the financial statement schedule for the years ended December 31, 2006 and 2005 as listed in the index at Item 15(a)(2). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UFP Technologies, Inc. as of December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Carlin, Charron & Rosen, LLP

Carlin, Charron & Rosen, LLP
Westborough, Massachusetts
March 22, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of UFP Technologies, Inc.:

In our opinion, the consolidated statement of operations, of stockholders' equity, and of cash flows for the year ended December 31, 2004 listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the results of operations and cash flows of UFP Technologies, Inc., and its subsidiaries for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended December 31, 2004 listed in the index appearing under Item 15(a)(2), present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
March 14, 2005

Independent Auditors

As previously disclosed on a Form 8-K filed by the Company on July 8, 2005, and in the Company's annual reports on Form 10-K for the years ended December 31, 2005 and 2006, filed by the Company on March 24, 2006 and March 27, 2007, respectively, the Audit Committee of the Board of Directors of the Company, effective on July 5, 2005, dismissed PricewaterhouseCoopers, L.L.P. ("PwC") as the Company's independent registered public accounting firm. The reports issued by PwC on the Company's financial statements as of December 31, 2003 and December 31, 2004, and for the years ended December 31, 2003 and December 31, 2004, did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle. During the years ended December 31, 2003 and December 31, 2004, and through July 5, 2005: (i) there were no disagreements with PwC on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to PwC's satisfaction, would have caused them to make reference thereto in their report of the Company's financial statements for such years; and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

Effective as of July 5, 2005 the Company engaged Carlin, Charron & Rosen LLP ("CCR") to serve as the Company's independent public accountants for the fiscal year ended December 31, 2005. The Audit Committee of the Company approved the engagement of CCR. During the years ended December 31, 2003 and December 31, 2004, and through July 5, 2005, the Company did not consult with CCR with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters, including disagreements or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31 2006	2005
Current assets:		
Cash	$ 1,017,122	$ 265,352
Receivables, net	11,628,639	15,299,748
Inventories	5,929,677	6,441,592
Prepaid expenses	766,467	791,677
Deferred income taxes	1,032,281	781,988
Total current assets	**20,374,186**	**23,580,357**
Property, plant and equipment	37,212,463	36,723,341
Less accumulated depreciation and amortization	(27,075,279)	(25,750,620)
Net property, plant and equipment	10,137,184	10,972,721
Cash surrender value of officers life insurance	157,835	140,135
Deferred income taxes	1,387,353	2,494,251
Goodwill	6,481,037	6,481,037
Other assets	499,417	331,515
Total assets	**$ 39,037,012**	**$ 44,000,016**

LIABILITIES AND STOCKHOLDERS' EQUITY	2006	2005
Current liabilities:		
Notes payable	$ —	$ 7,990,521
Current installments of long-term debt	1,078,350	1,087,030
Current installments of capital lease obligations	688,991	638,875
Accounts payable	4,620,399	6,062,841
Accrued taxes and other expenses	5,749,949	4,480,239
Total current liabilities	**12,137,689**	**20,259,506**
Long-term debt, excluding current installments	4,603,977	5,286,548
Capital lease obligations, excluding current installments	2,317,072	2,363,163
Minority interest (Note 7)	616,157	633,853
Retirement and other liabilities	737,581	695,780
Total liabilities	**20,412,476**	**29,238,850**
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock, $.01 par value. Authorized 20,000,000 shares; issued and outstanding 5,156,764 shares in 2006 and 4,828,079 shares in 2005	51,568	48,281
Additional paid-in capital	10,311,682	8,966,472
Retained earnings	8,261,286	5,746,413
Total stockholders' equity	**18,624,536**	**14,761,166**
Total liabilities and stockholders' equity	**$ 39,037,012**	**$ 44,000,016**

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31		
	2006	2005	2004
Net sales	$ 93,749,239	$ 83,962,457	$ 68,624,098
Cost of sales	74,511,940	69,361,157	54,652,677
Gross profit	**19,237,299**	**14,601,300**	**13,971,421**
Selling, general and administrative expenses	14,183,117	12,430,515	12,107,012
Restructuring charge	—	—	(280,000)
Operating income	**5,054,182**	**2,170,785**	**2,144,409**
Other income (expense):			
Interest expense	(963,982)	(1,041,714)	(713,651)
Equity in net income of unconsolidated partnerships	15,037	12,531	12,532
Minority interest earnings	(87,298)	(305,037)	(83,358)
Other, net	(9,705)	30,734	—
Total other expense	(1,045,948)	(1,303,486)	(784,477)
Income before income tax provision	4,008,234	867,299	1,359,932
Income tax expense	1,493,361	208,208	488,671
Net income	**$ 2,514,873**	**$ 659,091**	**$ 871,261**
Net income per share:			
Basic	$ 0.50	$ 0.14	$ 0.19
Diluted	$ 0.45	$ 0.13	$ 0.17
Weighted average common shares:			
Basic	5,022,532	4,798,008	4,616,983
Diluted	5,571,068	5,260,569	4,994,611

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2006, 2005 and 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2003	**4,519,666**	**$ 45,197**	**$ 8,429,937**	**$ 4,216,061**	**$ 12,691,195**
Employee Stock Purchase Plan	38,229	382	46,733	—	47,115
Stock issued in lieu of compensation	71,283	713	136,037	—	136,750
Exercise of stock options, net of shares presented for exercise	49,388	494	2,122	—	2,616
Tax benefit relating to non-qualified stock option exercise	—	—	37,659	—	37,659
Net income	—	—	—	871,261	871,261
Balance at December 31, 2004	**4,678,566**	**46,786**	**8,652,488**	**5,087,322**	**13,786,596**
Employee Stock Purchase Plan	16,931	169	48,416	—	48,585
Stock issued in lieu of compensation	65,472	655	239,795	—	240,450
Exercise of stock options, net of shares presented for exercise	67,110	671	25,773	—	26,444
Net income	—	—	—	659,091	659,091
Balance at December 31, 2005	**4,828,079**	**48,281**	**8,966,472**	**5,746,413**	**14,761,166**
Employee Stock Purchase Plan	21,148	211	47,111	—	47,322
Stock issued in lieu of compensation	54,411	544	143,703	—	144,247
Shared-based compensation	—	—	459,340	—	459,340
Exercise of stock options, net of shares presented for exercise	253,126	2,532	518,189	—	520,721
Tax benefit relating to non-qualified stock option exercise	—	—	176,867	—	176,867
Net income	—	—	—	2,514,873	2,514,873
Balance at December 31, 2006	**5,156,764**	**$ 51,568**	**$ 10,311,682**	**$ 8,261,286**	**$ 18,624,536**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 2,514,873	$ 659,091	$ 871,261
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,059,702	2,936,691	2,493,300
Equity in net income of unconsolidated affiliate and partnership	(15,038)	(12,531)	(12,532)
Minority interest	87,298	305,037	83,358
Loss on disposal of property, plant and equipment	9,705	—	—
Restructuring charges	—	—	(280,000)
Share-based compensation	459,340	—	—
Stock issued in lieu of compensation	144,247	240,450	136,750
Deferred income taxes	856,605	(97,899)	266,438
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables, net	3,767,676	(3,480,842)	(2,679,592)
Inventories	598,132	(1,205,360)	(823,626)
Prepaid expenses	25,210	(80,983)	(216,944)
Refundable income tax	—	—	419,658
Accounts payable	(647,048)	1,335,525	733,176
Accrued taxes and other expenses	1,269,710	495,352	444,181
Retirement and other liabilities	41,801	(84,724)	(76,188)
Cash surrender value of officers' life insurance	(17,700)	(14,209)	(8,056)
Other assets	(61,105)	12,801	44,744
Net cash provided by operating activities	**12,093,408**	**1,008,399**	**1,395,928**
Cash flows from investing activities:			
Additions to property, plant and equipment	(1,515,533)	(1,109,995)	(2,141,700)
Payments received from affiliated partnership	15,038	12,531	12,532
Proceeds from sale of property, plant and equipment	30,000	—	—
Acquisition of assets of Stephen Packaging Corp.	(309,229)	—	—
Net cash used in investing activities	**(1,779,724)**	**(1,097,464)**	**(2,129,168)**
Cash flows from financing activities:			
Net borrowings (payments) under notes payable	(7,990,521)	67,051	1,185,758
Change in book overdrafts	(832,378)	1,061,594	300,049
Proceeds from long-term borrowings	—	731,388	768,612
Distribution to United Development Company Partners	(104,994)	(104,993)	(104,982)
Tax benefit from exercise of non-qualified stock options	176,867	—	37,659
Proceeds from sale of common stock	568,043	75,029	49,731
Principal repayment of long-term debt	(691,251)	(1,366,834)	(1,030,682)
Principal repayment of obligations under capital leases	(2,046,680)	(426,769)	(465,091)
Proceeds from refinancing capital leases	1,359,000	—	—
Net cash provided by financing activities	**(9,561,914)**	**36,466**	**741,054**
Net change in cash	751,770	(52,599)	7,814
Cash at beginning of year	265,352	317,951	310,137
Cash at end of year	**$ 1,017,122**	**$ 265,352**	**$ 317,951**

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

(1) Summary of Significant Accounting Policies

UFP Technologies, Inc. ("the Company") is an innovative designer and custom converter of foams, plastics and natural fiber products principally serving the automotive, computer and electronics, medical, aerospace and defense, consumer 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. (MFT), Simco Automotive Trim, and Simco Automotive Technology. The Company also consolidates United Development Company Limited, of which the Company owns 26.32% (see Note 7). All significant inter-company balances and transactions have been eliminated in consolidation.

(b) Accounts Receivable

The Company periodically reviews the collectibility of its accounts receivable. Provisions are established for accounts that are potentially uncollectible. 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, 2006.

(c) Inventories

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

The Company periodically reviews the realizability of its inventory. Provisions are established for potential obsolescence. Determining adequate reserves for inventory obsolescence 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 reserve balances as of December 31, 2006.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated and amortized using the straight-line method over the estimated useful lives of the assets for financial statement purposes and accelerated methods for income tax purposes. Certain manufacturing machines that are dedicated to a specific program—where total units to be produced over the life of the program are estimable—are depreciated using the modified units of production method for financial statement purposes.

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

Leasehold improvements	Estimated useful life or remaining lease term, whichever is shorter
Buildings and improvements	31.5 years
Equipment	8–10 years
Furniture and fixtures	5–7 years

(e) Income Taxes

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

(f) Revenue Recognition

The Company recognizes revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of its obligation is complete, its price to the buyer is fixed or determinable and the Company is reasonably assured of collecting. If a loss is anticipated on any contract, a provision for the entire loss is made immediately. Determination of these criteria, in some cases, requires management's judgments. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue for any reporting period could be adversely affected.

(g) Investments in Realty Partnership

The Company has invested in Lakeshore Estates Associates, a realty limited partnership. The Lakeshore Estates investment is stated at cost, plus or minus the Company's proportionate share of the limited partnership's income or losses, less any distributions received from the limited partnership. The Company has recognized its share of Lakeshore Estates Associates' losses only to the extent of its original investment in, and advances to, this partnership. The Company's book value in this investment is zero at December 31, 2006 and 2005, respectively.

(h) Impairment of Long-Lived Assets

The Company reviews long-lived assets and all intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Goodwill is reviewed at least annually for impairment. Recoverability of long-lived assets and definite lived intangible assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then long-lived assets are written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets. Recoverability of goodwill is determined under a two-step process as described in SFAS 142. The fair value of reporting units determined under step one is also based on a discounted cash flow model. At December 31, 2006, no impairment has been identified. Forecasted cash flows are based upon numerous assumptions used by management, such as revenue growth, margins and asset management. For purposes of this analysis, the Company reviews its internal forecasts and external data. The external data consist of data available from customer and competitor commentary, and industry forecasts of future revenue growth.

The estimates of expected cash flows require the Company to make significant judgments regarding future periods that are subject to some factors outside of the Company's control. Changes in these estimates can result in significant revisions to the carrying value of these assets and may result in material charges to the results of operations.

(i) Goodwill and Other Intangible Assets

Goodwill and indefinite-lived intangible assets are assessed for impairment on at least an annual basis. Beginning in 2005, the Company changed its annual goodwill impairment testing date from the second quarter to the fourth quarter of its fiscal year. The Company believes this new accounting method is preferable, since more complete and accurate information to assess goodwill for impairment is available in the fourth quarter, including actual financial performance to date and information relative to the carrying value of assets. There is no financial impact as of the year ended December 31, 2006, or on any prior periods, as a result of this change in accounting method. Goodwill of a reporting unit will also be tested for impairment between annual tests if a triggering event occurs, as defined by SFAS 142, that could potentially reduce the fair value of the reporting unit below its carrying value.

Definite-lived intangible assets, such as patents, are amortized over their estimated useful lives, generally periods ranging from eight to 14 years. The Company continually evaluates the reasonableness of the useful lives of these assets.

(j) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company utilizes zero balance disbursement accounts to manage its funds. These accounts reflect negative cash balances as checks clear the banking system. In accordance with accounting principles generally accepted in the United States of America, the negative cash book balances at the end of a period are reclassified to accounts payable. At December 31, 2006 and 2005, the amounts reclassified were approximately $1.7 million and $2.5 million, respectively.

(k) 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 assets and liabilities, 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.

(l) Segments and Related Information

The Company has adopted the provisions of SFAS 131, Disclosures About Segments of an Enterprise and Related Information, which established standards for the way that public business enterprises report information and operating segments in annual financial statements and requires reporting of selected information in interim financial reports (see Note 18).

(m) Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes," which is an interpretation of FASB Statement 109, "Accounting for Income Taxes." FIN 48 requires management to perform a two-step evaluation of all tax positions, ensuring that these tax return positions meet the "more likely than not" recognition threshold and can be measured with sufficient precision to determine the benefit recognized in the financial statements. These evaluations provide management with a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements certain tax positions that the Company has taken or expects to take on income tax returns. The Company does not believe this pronouncement will have a material impact on its financial position or results of operations. FIN 48 is effective for the Company's interim period beginning January 1, 2007.

In September 2006, the SEC issued Staff Accounting Bulletin 108 (SAB 108). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning-of-year retained earnings. The Company adopted SAB 108 during the fourth quarter of 2006. The adoption did not have a material impact on the Company's financial position, cash flows or results of operations.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 but does not believe that the adoption of SFAS 157 will have any material impact on its financial position, cash flows or results of operations.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 159 on its financial position, cash flows and results of operations.

(n) Share-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards 123R ("SFAS 123R") "Share-Based Payment," which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS 123R, 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). Prior to January 1, 2006, the Company accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion ("APB") 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company also followed the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." The Company elected to adopt the modified prospective transition method as provided by SFAS 123R and, accordingly, financial statement amounts for the periods prior to January 1, 2006, presented in this Form 10-K have not been restated to reflect the fair value method of expensing share-based compensation. Under this application, the Company is required to record compensation cost for all share-based payments granted after the date of adoption based on the grant date fair value estimated in accordance with the provisions of SFAS 123R, and for the unvested portion of all share-based payments previously granted that remain outstanding, which were based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. The Company expenses its share-based compensation on a straight-line basis over the requisite service period for each award.

The provisions of SFAS 123R apply to share-based payments made through several plans, which are described below. The compensation cost that has been charged against income for those plans is as follows:

	Year Ended December 31, 2006
Cost of sales	$ —
Selling, general & administrative expense	459,340
Total share-based compensation expense	**$ 459,340**

The Company has recorded compensation expense of $116,991 for the year ended December 31, 2006, for options granted during the period. The compensation expense was determined as the intrinsic fair market value of the options, using a lattice-based option valuation model with the assumptions noted as follows:

Expected volatility: 92.7% to 96.7%
Expected dividends: None
Risk-free interest rate: 4.7% to 5.1%
Exercise price: Closing price on date of grant
Imputed life: 4.0 to 8.0 years (output in lattice-based model)

The Company did not recognize compensation expense for employee stock options for the years ended December 31, 2005 and 2004, when the exercise price of the employee stock option equaled the market price of the underlying stock on the grant date.

The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately $175,000 for the year ended December 31, 2006.

The following table illustrates the effects on net income and earnings per share for the years ended December 31, 2005 and 2004, respectively, as if the Company had applied the fair value recognition provisions of SFAS 123 to share-based employee awards:

	Years Ended December 31 2005	2004
Net income as reported	$ 659,091	$ 871,261
Total stock-based compensation expense determined under fair value-based method for all awards net of tax-related effects	(553,109)	(519,084)
Pro forma net income	**105,982**	**352,177**
Basic net income per share as reported	0.14	0.19
Pro forma basic net income per share	0.02	0.08
Diluted net income per share as reported	0.13	0.17
Pro forma diluted net income per share	$ 0.02	$ 0.07

The fair value of each option grant for options granted prior to January 1, 2006, is estimated on the date of grant, using the Black-Scholes option pricing model with the following assumptions:

	Years Ended December 31 2005	2004
Expected term	6.8 years	5.7 years
Volatility	84.4%	102.8%
Risk-free interest rate	4.08%	3.72%
Dividend yield	0%	0%

The weighted average fair value of options granted during 2005 and 2004 was $2.39 and $2.34, respectively.

(o) Deferred Rent

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

(p) 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 as revenue.

(2) Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows:

	Years Ended December 31		
	2006	2005	2004
Interest	$ 1,001,382	$ 1,022,314	$ 697,651
Income taxes (refunds)—net	$ 368,975	$ 81,019	$ (340,599)

Significant non-cash transactions:

	Years Ended December 31		
	2006	2005	2004
Property and equipment acquired under capital lease	$ 691,705	$ 1,380,615	$ 229,540
Tax benefit resulting from the exercise of non-qualified stock options	176,867	—	37,659
Shares presented for stock option exercises	(15,500)	(104,750)	(239,747)
Total non-cash transactions	**$ 853,072**	**$ 1,275,865**	**$ 27,452**

(3) Receivables

Receivables consist of the following:

	December 31	
	2006	2005
Accounts receivable—trade	$ 11,969,616	$ 15,864,919
Less allowance for doubtful receivables	(340,977)	(565,171)
	$ 11,628,639	**$ 15,299,748**

(4) Goodwill and Other Intangible Assets

The Company completed its annual impairment test of goodwill in the fourth quarter of 2006, and determined that no goodwill was impaired.

At December 31, 2006, and December 31, 2005, the carrying value of the Company's patents was $157,603 and $192,055, respectively, net of accumulated amortization. Future patent amortizations for years ended December 31 will be approximately:

2007	$ 34,000
2008	34,000
2009	34,000
2010	34,000
2011	21,603
Thereafter	—
Total:	**$ 157,603**

(5) Inventories

Inventories consist of the following:

	December 31	
	2006	**2005**
Raw materials	$ 3,796,380	$ 4,487,659
Work in process	293,580	370,106
Finished goods	2,080,537	1,845,981
Reserve for obsolescence	(240,820)	(262,154)
	$ 5,929,677	**$ 6,441,592**

(6) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31	
	2006	**2005**
Land	$ 409,119	$ 409,119
Buildings and improvements	4,537,484	4,079,714
Leasehold improvements	1,821,944	1,946,122
Equipment	28,121,833	27,389,836
Furniture and fixtures	2,026,102	2,447,820
Construction in progress-equipment/buildings	295,981	450,630
	$ 37,212,463	**$ 36,723,241**

Depreciation expense for the years ended December 31, 2006, 2005 and 2004 was $3,003,070, $2,902,329 and $2,460,048, respectively.

(7) Investment in and Advances to Affiliated Partnership

The Company has a 26.32% ownership interest in a realty limited partnership, United Development Company Limited (“UDT”). In compliance with FIN 46(R), “Consolidation of Variable Interest Entities, an Interpretation of ARB 51,” the Company has consolidated the financial statements of UDT as of December 31, 2003. Prior to December 31, 2003, this investment was accounted for under the equity method at cost, plus the Company’s proportionate share of the limited partnership’s income, less any distributions received from the limited partnership. As a result of consolidating UDT, both total assets and total liabilities of the Company increased by $1,061,000 at December 31, 2006. There was no impact on net income.

(8) Indebtedness

As a component of consolidating UDT's assets, the Company included $196,465 in cash at December 31, 2006. Although this cash balance is not legally restricted, the Company does not use this cash in its operations.

On February 28, 2003, the Company obtained a credit facility, which has been amended effective March 24, 2004; June 28, 2004; and November 21, 2005, to reflect, among other things, changes to certain financial covenants. The amended facility is comprised of: (i) a revolving credit facility of $17 million that is collateralized by the Company's accounts receivable and inventory; (ii) a term loan of $3.7 million with a 7-year straight-line amortization that is collateralized by the Company's property, plant and equipment (excluding UDT's property, plant and equipment); and (iii) a term loan of $2.3 million with a 15-year straight-line amortization that is collateralized by a mortgage on the Company's real estate located in Georgetown, Massachusetts. Extensions of credit under the revolving credit facility are subject to available collateral based upon accounts receivable and inventory levels. Therefore, the entire $17 million may not be available to the Company. For example, as of December 31, 2006, based upon no revolving credit facility borrowings outstanding and collateral levels, the Company had availability of $12.3 million of credit under this facility. The amount of availability can fluctuate significantly. The amended credit facility calls for interest of Prime or LIBOR plus a margin that ranges from 1.0% to 1.5%, depending upon Company operating performance. All borrowings at December 31, 2006, had interest computed at Prime or LIBOR plus 1.0%. Under the amended credit facility, the Company is subject to certain financial covenants including maximum capital expenditures and minimum fixed-charge coverage. As of December 31, 2006, the Company was in compliance with all of these covenants. The Company's $17 million revolving credit facility, as amended, is due February 28, 2009; the $3.7 million term loan and the $2.3 million mortgage are due November 21, 2011. At December 31, 2006, the interest rate on these facilities ranged from 6.4% to 8.25%.

As a result of the consolidation of United Development Company Limited, a mortgage note collateralized by the Alabama and Florida facilities, dated September 4, 2002, originally for $470,313 is included within long-term debt in the consolidated financial statements. The note calls for 50 principal payments of $3,406 and one payment of $388,967 due on March 4, 2007. The note bears interest at LIBOR plus 2.75%, adjusted monthly. At December 31, 2006, the outstanding balance was $395,779. At December 31, 2006, the interest rate was approximately 8.1%. Payments on this note are funded through rent payments that the Company makes on its Alabama and Florida facilities. The Company is not subject to any financial covenants under this mortgage note.

Long-term debt consists of the following:

	December 31	
	2006	**2005**
Mortgage note	$ 2,171,000	$ 2,327,000
Notes payable, term loans	3,115,548	3,642,119
United Development Company mortgage	395,779	404,459
Total long-term debt	**5,682,327**	**6,373,578**
Less current installments	1,078,350	1,087,030
Long-term debt, excluding current installments	**$ 4,603,977**	**$ 5,286,548**

Aggregate maturities of long-term debt are as follows:

Year ending December 31:	
2007	$ 1,078,350
2008	682,571
2009	682,571
2010	682,571
2011 and thereafter	2,556,264
	$ 5,682,327

(9) Accrued Taxes and Other Expenses

Accrued taxes and other expenses consist of the following:

	December 31	
	2006	2005
Compensation	$ 1,666,949	$ 1,179,024
Benefits	1,464,198	846,091
Paid time off	486,680	466,946
Other	2,132,122	1,988,178
	$ 5,749,949	**$ 4,480,239**

(10) Income Taxes

The Company's income tax (benefit) provision for the years ended December 31, 2006, 2005 and 2004 consists of approximately:

	Years Ended December 31		
	2006	2005	2004
Current:			
Federal	$ 160,000	$ —	$ 76,000
State	300,000	122,000	108,000
	460,000	**122,000**	**184,000**
Deferred:			
Federal	1,061,000	131,000	174,000
State	(28,000)	(45,000)	131,000
	1,033,000	**86,000**	**305,000**
Total income tax provision	**$ 1,493,000**	**$ 208,000**	**$ 489,000**

At December 31, 2006, the Company has net operating loss carryforwards for federal income tax purposes of approximately $4,172,000, and for state income tax purposes of approximately $2,045,000, which are available to offset future taxable income and expire during the federal tax years ending December 31, 2019, through 2024.

The future benefit of the net operating loss carryforwards acquired from Simco will be limited to approximately $300,000 per year in accordance with Section 382 of the Internal Revenue Code. As of December 31, 2006, net operating loss carryforwards acquired from Simco for federal income tax purposes totaled $3,365,000.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are approximately as follows:

	December 31	
	2006	2005
Deferred tax assets related to:		
Reserves	$ —	$ 27,000
Research and development credits	650,000	544,000
Compensation programs	195,000	124,000
Retirement liability	263,000	263,000
Net operating loss carryforwards	1,758,000	3,265,000
AMT tax	123,000	—
Other	62,000	73,000
Total deferred tax assets	**3,051,000**	**4,296,000**
Deferred tax liabilities related to:		
Excess of book over tax basis of fixed assets	617,000	925,000
Investee tax loss in excess of book losses	7,000	89,000
Capital leases	—	6,000
Reserves	7,000	—
Total deferred tax liabilities	**631,000**	**1,020,000**
Net deferred tax assets	**$ 2,420,000**	**$ 3,276,000**

The amount recorded as net deferred tax assets as of December 31, 2006 and 2005 represents 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 believes that the net deferred tax asset of $2,420,000 at December 31, 2006, is more likely than not to be realized in the carry forward period. Management reviews the recoverability of deferred tax assets during each reporting period.

The actual tax provision for the years presented differs from the "expected" tax provision for those years, computed by applying the U.S. federal corporate rate of 34% to income before income tax expense as follows:

	Years Ended December 31		
	2006	**2005**	**2004**
Computed "expected" tax rate	34.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	4.6	5.9	10.4
Officers life insurance	0.1	1.4	0.4
Meals and entertainment	0.3	3.0	2.2
R&D credits	(2.7)	(20.3)	(9.9)
Non-deductible ISO stock option expense	1.0	0.0	0.0
Other	0.0	0.0	(1.2)
Effective tax rate	**37.3%**	**24.0%**	**35.9%**

The impact on the Company's 2005 effective tax rate from research and development credits is higher than usual due to true-up adjustments.

(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:

	Years Ended December 31		
	2006	**2005**	**2004**
Basic weighted average common shares outstanding during the year	5,022,532	4,798,008	4,616,983
Weighted average common equivalent shares due to stock options	548,536	462,561	377,628
Diluted weighted average common shares outstanding during the year	**5,571,068**	**5,260,569**	**4,994,611**

(12) Stock Option and Employee Stock Purchase Plans

The Company maintains a stock option plan to provide long-term rewards and incentives to the Company's key employees, officers, employee directors, consultants and advisors. The plan provides for either non-qualified stock options or incentive stock options for the issuance of up to 1,550,000 shares of common stock. The exercise price of the incentive stock options may not be less than the fair market value of the common stock on the date of grant, and the exercise price for non-qualified stock options shall be determined by the Stock Option Committee. These options expire over five- to ten-year periods. Options granted under the plan generally become exercisable with respect to 25% of the total number of shares subject to such options at the end of each 12-month period following the grant of the option. At December 31, 2006, there were 731,875 options outstanding under the plan. These options are not transferable except by will or domestic relations order.

Through July 15, 1998, the Company maintained a stock option plan covering non-employee directors (the "1993 Director Plan"). Effective July 15, 1998, with the formation of the 1998 Director Stock Option Incentive Plan ("1998 Director Plan"), the 1993 Director Plan was frozen. The 1993 Director Plan provided for options for the issuance of up to 110,000 shares of common stock. On July 1 of each year, each individual who at the time was serving as a non-employee director of the Company received an automatic grant of options to purchase 2,500 shares of common stock. These options became exercisable in full six months after the date of grant and expire ten years from the date of grant. The exercise price was the fair market value of the common stock on the date of grant. At December 31, 2006, there were 20,000 options outstanding under the 1993 Director Plan.

Effective July 15, 1998, the Company adopted the 1998 Director Stock Option Incentive Plan ("1998 Director Plan") for the benefit of non-employee directors of the Company. The 1998 Director Plan provided for options for the issuance of up to 425,000 shares of common stock. On June 2, 2004, the Company amended the plan to increase the allowable amount to 725,000 shares. These options become exercisable in full at the date of grant and expire ten years from the date of grant. In connection with the adoption of the 1998 Director Plan, the 1993 Director Plan was discontinued; however, the options outstanding under the 1993 Director Plan were not affected by the adoption of the new plan. At December 31, 2006, there were 404,184 options outstanding under the 1998 Director Plan.

On April 18, 1998, the Company adopted the 1998 Stock Purchase Plan which provides that all employees of the Company who work more than 20 hours per week and more than five months in any calendar year and who are employees on or before the applicable offering period are eligible to participate. The 1998 Stock Purchase Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986. Under the Stock Purchase Plan, participants may have withheld up to 10% of their base salaries during the six-month offering periods ending June 30 and December 31 for the purchase of the Company's common stock at 95% of the market value of the common stock on the last day of the offering period. The 1998 Stock Purchase Plan provides for the issuance of up to 400,000 shares of common stock. To date, 298,328 shares have been issued.

In June 2003, the Company formally adopted the 2003 Equity Incentive Plan (the "Plan"). The Plan is intended to benefit the Company by offering equity-based incentives to certain of the Company's executives and employees, thereby giving them a permanent stake in the growth and long-term success of the Company and encouraging the continuance of their involvement with the Company's businesses.

Two types of 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, without limitation, unrestricted stock, nonqualified options, performance shares or stock appreciation rights. The Company determines the form, terms and conditions, if any, of any awards made under the Plan. The maximum number of shares of common stock, in the aggregate, that may be delivered in payment or in respect of stock issued under the Plan is 500,000 shares. As of December 31, 2006, 191,166 shares have been issued.

On June 8, 2006, the Company's Board of Directors, upon the recommendation of the Compensation Committee, approved a grant, effective as of July 1, 2006, of restricted stock awards to certain executive officers. The grants of restricted stock awards were made under and pursuant to the Company's 2003 Equity Incentive Plan.

"A"	Number of shares of restricted stock granted (not subject to performance criteria)	48,000
"B"	Number of shares of restricted stock granted (subject to performance criteria)	48,000
"C"	Number of shares of restricted stock granted (subject to performance criteria)	48,000
	Total	**144,000**

The awards of restricted stock listed under "A" above are subject to a time-based vesting requirement. One-third of these awards vest on July 1, 2007, one-third of these awards vest on July 1, 2008, and one-third of these awards vest on July 1, 2009, so long as the recipient remains continuously employed by the Company through each such vesting date.

The shares of restricted stock listed under "B" and "C" above are subject to a different time-based vesting requirement and to the Company meeting certain financial performance requirements, described below. One-third of these awards vest on July 1, 2008, one-third of these awards vest on July 1, 2009, and one-third of these awards vest on July 1, 2010, so long as the recipient remains continuously employed by the Company through each such vesting date.

The financial performance requirement for the shares listed under "B" and "C" above is based on the Company's earnings before interest and taxes ("EBIT") for calendar year 2006 relative to an EBIT target established by the Compensation Committee. If the Company achieves the EBIT target, then all of the restricted shares listed under "B" above will be eligible to become vested, subject to the time-based vesting and continuous employment requirements described above. To the extent the Company achieves in excess of the EBIT target, restricted shares listed under "C" above (in addition to the restricted shares listed under "B" above) will be eligible to become vested, subject to the time-based vesting and continuous employment requirements described above, based on a straight-line interpolation of the EBIT target established by the Compensation Committee in increments of 20% of such shares, up to the maximum amount listed under "C." All of the performance requirements for "B" and "C" have been met for the year ended December 31, 2006.

Any unvested shares of restricted stock shall terminate upon the cessation of a recipient's employment with the company. In the event of a change in control of the Company (as defined in the restricted stock agreement evidencing the award): (i) the shares of restricted stock listed under "A" above shall become fully vested immediately prior to the effective date of such change in control; (ii) on or prior to December 31, 2006, all shares of restricted stock listed under "B" and "C" above shall terminate; and (iii) on or after January 1, 2007, to the extent the EBIT target has been achieved or exceeded, the applicable number of shares of restricted stock listed under "B" and "C" above, to the extent not already vested, shall become fully vested immediately prior to the effective date of such change in control.

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

	Shares Under Options	Weighted Average Exercise Price
Outstanding at December 31, 2003	**1,136,170**	**$ 1.88**
Granted	214,167	2.74
Exercised	(118,800)	2.04
Canceled or expired	(56,000)	3.08
Outstanding at December 31, 2004	**1,175,537**	**$ 1.97**
Granted	305,759	3.08
Exercised	(86,875)	1.51
Canceled or expired	(18,875)	3.20
Outstanding December 31, 2005	**1,375,546**	**$ 2.23**
Granted	64,877	5.86
Exercised	(255,614)	2.10
Cancelled or expired	(28,750)	4.45
Outstanding December 31, 2006	**1,156,059**	**$ 2.40**

There were 1,061,809 exercisable options as of December 31, 2006.

During the 12 months ended December 31, 2006, 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 $883,417, and the total amount of consideration received from the exercise of these options was $537,065.

The following is a summary of information relating to stock options outstanding and exercisable by price range as of December 31, 2006:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of exercise prices	**Outstanding as of 12/31/06**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Exercisable as of 12/31/06**	**Weighted average exercise price**
$0.00 - $0.99	50,000	5.1 years	$ 0.81	50,000	$ 0.81
$1.00 - $1.99	401,892	4.8 years	1.25	391,892	1.25
$2.00 - $2.99	349,684	6.0 years	2.50	349,684	2.50
$3.00 - $3.99	272,106	5.6 years	3.33	202,856	3.32
$4.00 - $4.99	22,500	1.8 years	4.35	17,500	4.18
$5.00 - $5.99	10,000	4.7 years	5.31	—	—
$6.00 - $6.99	49,877	9.5 years	6.07	49,877	6.07
	1,156,059	**5.5 years**	**$ 2.40**	**1,061,809**	**$ 2.31**

The total grant date fair value of stock options that vested during the 12 months ended December 31, 2006, was approximately $702,000, with a weighted average remaining contractual term of approximately six years.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2006, vest:

	Options	**Common Stock**	**Restricted Stock Units**	**Total**
2007	$ 104,432	0	$ 240,328	$ 344,760
2008	87,932	0	240,328	328,260
2009	29,643	0	192,458	222,101
2010	9,922	0	72,294	82,216
	$ 231,929	**0**	**$ 745,408**	**$ 977,337**

(13) Preferred Stock

On January 13, 1999, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock, par value $0.01 per share on February 5, 1999, to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share (the "Preferred Share"), of the Company, at a price of $30.00 per one one-thousandth of a Preferred Share subject to adjustment and the terms of the Rights Agreement.

(14) Supplemental Retirement Plan

The Company has a supplemental retirement plan for certain retired officers, which will provide an annual benefit to these individuals for various terms following separation from employment. The Company recorded an expense of approximately $111,000, $42,000 and $58,000 for the years ended December 31, 2006, 2005 and 2004, respectively, in accordance with this plan, which includes both current costs and prior service costs for these individuals. The present value of the supplemental retirement obligation has been calculated using an 8.5% discount rate. Total projected future cash payments for the years ending December 31, 2007 through 2010 are approximately $244,000, $108,000, $104,000 and $101,000, respectively, and approximately $381,000 thereafter.

(15) Commitments and Contingencies

(a) Leases – The Company has non cancelable operating leases for certain facilities that expire through 2011. Certain of the leases contain escalation clauses which require payments of additional rent, as well as increases in related operating costs. The Company also leases various equipment under capital leases, which expire through 2011.

Included in property, plant and equipment are the following amounts held under capital lease:

	December 31	
	2006	**2005**
Equipment	$ 4,539,977	$ 2,765,061
Less accumulated amortization	(1,695,186)	(680,831)
	$ 2,844,791	**$ 2,084,230**

Future minimum lease payments under noncancelable operating leases and the present value of future minimum lease payments under capital leases as of December 31, 2006, are as follows:

Years Ending December 31:	**Capital Leases**	**Operating Leases**
2007	891,704	1,645,615
2008	852,894	684,816
2009	798,979	473,895
2010	717,916	405,915
Thereafter	244,250	1,220,334
Total minimum lease payments	**$ 3,505,743**	**$ 4,430,575**
Less amount representing interest	499,680	
Present value of future minimum lease payments	**3,006,063**	
Less current installments of obligations under capital leases	688,991	
Obligations under capital lease, excluding current installments	**$ 2,317,072**	

Rent expense amounted to approximately $2,375,000, $2,230,000 and $2,153,000 in 2006, 2005 and 2004, respectively. Approximately $244,000, $244,000 and $244,000 in 2006, 2005 and 2004, respectively, was paid to United Development Company Limited ("UDT"), a real estate company of which the Company owns 26.32%, that owns the Decatur, Alabama; and Kissimmee, Florida, facilities. The 2006 and 2005 rent expense incurred from "UDT" has been eliminated in consolidation.

In connection with the eight-year automotive program, the Company has purchased a new forming line for approximately $1.7 million in 2003, and a second similar forming line for approximately $1.9 million in 2004.

(b) Legal – The Company is a defendant in various administrative proceedings that are being handled in the ordinary course of business. In the opinion of management of the Company, these suits and claims should not result in final judgments or settlements that, in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

(16) Employee Benefits Plans

The Company maintains a profit-sharing plan for eligible employees. Contributions to the Plan are made in the form of matching contributions to employee 401k deferrals as well as discretionary amounts determined by the Board of Directors, and amounted to approximately $432,000, $451,000 and $459,000 in 2006, 2005 and 2004, 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 $75,000 per insured person, along with an aggregate stop loss determined by the number of participants.

During 2006, the Company established 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 by the Company to pay amounts due under the Plan. There is currently no security mechanism to ensure that these obligations will be paid in the future by the Company.

The compensation withheld from Plan participants, together with investment income on the Plan, is reflected as a deferred compensation obligation to participants and is classified within accrued liabilities in the accompanying balance sheet. At December 31, 2006, the balance of the deferred compensation liability totaled approximately $35,000. 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 other assets in the accompanying balance sheet and are reported at cash surrender value, which was approximately $34,000 as of December 31, 2006.

(17) Fair Value of Financial Instruments

Statement of Financial Accounting Standards 107, *Disclosures About Fair Value of Financial Instruments*, defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a transaction between willing parties.

Cash and cash equivalents, accounts receivable, inventories, prepaid expenses, notes payable to bank, accounts payable and accrued expenses and payroll withholdings are stated at carrying amounts that approximate fair value because of the short maturity of those instruments.

Long-term debt and capital lease obligations are subject to interest rates currently offered to the Company; therefore, the historical carrying amount approximates fair value.

(18) Segment Data

The Company has adopted SFAS 131, *Disclosures about Segments of an Enterprise and Related Information.*

The Company is organized based on the nature of the products and services that it offers. Under this structure, the Company produces products within two distinct segments: Packaging and Component Products. Within the Packaging segment, the Company primarily uses polyethylene and polyurethane foams, sheet plastics and pulp fiber to provide customers with cushion packaging for their products. Within the Component Products applications segment, the Company primarily uses cross-linked polyethylene foam to provide customers in the automotive, athletic, leisure and health and beauty industries with engineered product for numerous purposes.

The accounting policies of the segments are the same as those described in Note 1. Income taxes and interest expense have been allocated based on operating results and total assets employed in each segment.

Inter-segment transactions are uncommon and not material. Therefore, they have not been separately reflected in the financial table below. The totals of the reportable segments' revenues, net profits and assets agree with the Company's comparable amount contained in the audited financial statements. Revenues from customers outside of the United States are not material.

The top customer in the Company's Component Products segment comprises 30% of that segment's total sales and 18% of the Company's total sales for the year ended December 31, 2006. No one customer accounted for more than 10% of the Packaging segment sales for the year ended December 31, 2006.

The results for the Packaging segment include the results of United Development Company Limited.

Financial statement information by reportable segment is as follows:

2006	Component Products	Packaging	Total
Sales	$ 55,757,985	$ 37,991,254	$ 93,749,239
Operating income	2,833,743	2,220,439	5,054,182
Total assets	21,131,060	17,905,952	39,037,012
Depreciation/amortization	1,933,949	1,125,753	3,059,702
Capital expenditures	911,032	604,501	1,515,533
Interest expense	493,534	470,448	963,982
Goodwill	4,463,246	2,017,791	6,481,037

2005	Component Products	Packaging	Total
Sales	$ 48,218,839	$ 35,743,618	$ 83,962,457
Operating income (loss)	(601,839)	2,772,624	2,170,785
Total assets	25,460,467	18,539,549	44,000,016
Depreciation/amortization	1,645,010	1,291,681	2,936,691
Capital expenditures	35,485	1,074,510	1,109,995
Interest expense	582,266	459,448	1,041,714
Goodwill	4,463,246	2,017,791	6,481,037

2004	Component Products	Packaging	Total
Sales	$ 36,135,175	$ 32,488,923	$ 68,624,098
Operating income	967,616	1,176,793	2,144,409
Total assets	21,921,263	17,710,941	39,632,204
Depreciation/amortization	1,111,537	1,381,763	2,493,300
Capital expenditures	1,343,254	828,446	2,171,700
Interest expense	375,822	337,829	713,651
Goodwill	4,463,246	2,017,791	6,481,037

(19) Quarterly Financial Information (unaudited)

Year ended 12/31/2006	Q1	Q2	Q3	Q4
Net sales	$ 24,140,718	$ 24,533,970	$ 21,737,107	$ 23,337,444
Gross profit	4,878,826	5,289,301	4,176,799	4,892,373
Net income	573,594	700,544	395,515	845,220
Basic net income per share	0.12	0.14	0.08	0.16
Diluted net income per share	0.11	0.13	0.07	0.15

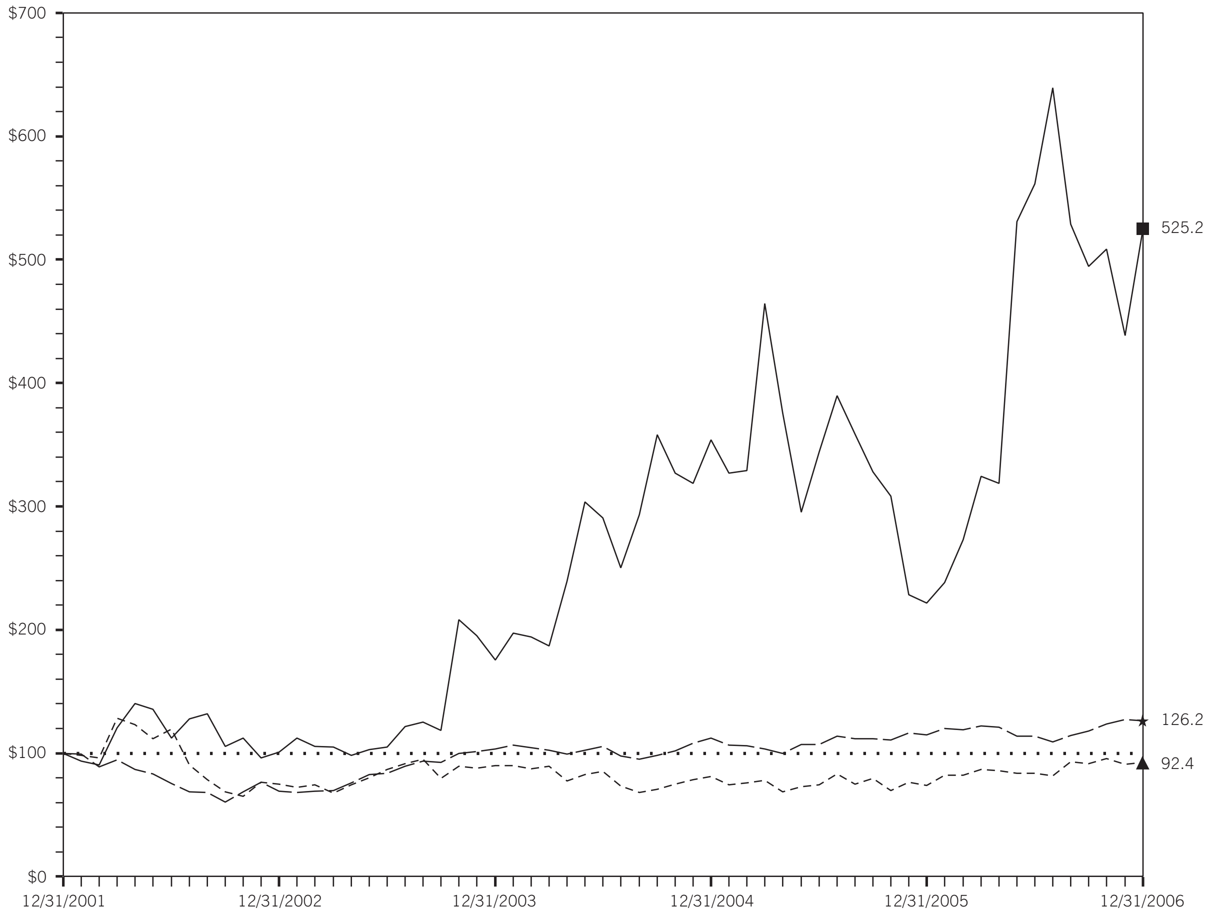
Year ended 12/31/2005	Q1	Q2	Q3	Q4
Net sales	$ 18,191,891	$ 20,917,802	$ 21,649,267	$ 23,203,497
Gross profit	3,622,964	4,126,323	3,087,184	3,764,829
Net income	85,402	314,189	(148,531)	408,031
Basic net income per share	0.02	0.07	(0.03)	0.08
Diluted net income per share	0.02	0.06	(0.03)	0.08

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 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, but are not limited to, statements regarding: the Company's ability to outperform its competition and achieve growth targets; the Company's beliefs about the advantages that its size, engineering capability and high-quality manufacturing will help win new business. Investors are cautioned that such forward-looking statements involve risks and uncertainties, including the ability of the Company to achieve positive results due to competition, decisions by customers to cancel or defer orders for its products that previously had been accepted, risks associated with the identification of suitable acquisition candidates and the successful, efficient execution of such acquisitions, evolving customer requirements, recent increases and possible further increases in the cost of the Company's raw materials and energy that the Company may not be able to pass through to its customers, difficulties associated with the rollout of new products, the costs of compliance with Sarbanes-Oxley-related requirements, general economic and industry conditions and other factors. Accordingly, actual results may differ materially. Readers are referred to the documents filed by the Company with the SEC, specifically the last reports on Forms 10-K and 10-Q. The forward-looking statements contained herein speak only of the Company's expectations as of the date of this press release. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based.

Comparison of Five-Year Cumulative Total Returns Performance Graph for UFP Technologies, Inc.

Produced on 03/08/2007, including data to 12/29/2006



Symbol	CRSP Total Returns Index for:	12/2001	12/2002	12/2003	12/2004	12/2005	12/2006
——— ■	UFP Technologies, Inc.	100.0	100.9	175.7	354.2	221.5	525.2
— — — ★	Nasdaq Stock Markets (U.S. Companies)	100.0	69.1	103.4	112.5	114.9	126.2
- - - - ▲	NASDAQ Stocks (SIC 3080 - 3089 U.S. Companies) Miscellaneous Plastics Products	100.0	75.0	90.0	80.9	73.9	92.4

Notes

A. The line represents monthly index levels derived from compounded daily returns that include all dividends.

B. The indexes are reweighted daily, using the market capitalization on the previous trading day.

C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

D. The index level for all series was set to $100.0 on 12/31/2001.

Prepared by CRSP (www.crsp.uchicago.edu), Center for Research in Security Prices, Graduate School of Business, The University of Chicago. Used with permission.

STOCKHOLDER INFORMATION

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

ANNUAL MEETING
The annual meeting of stockholders will be held at 10:00 a.m., on June 6, 2007, at the Sheraton Ferncroft Resort, 50 Ferncroft Road, Danvers, MA 01923.

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

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

UFP Technologies, Inc.
Attn.: Shareholder Services
172 East Main Street
Georgetown, MA 01833-2107 USA

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

FORM 10-K REPORT
A copy of the Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Company, or on the Company's website at www.ufpt.com.

CORPORATE HEADQUARTERS
UFP Technologies, Inc.
172 East Main Street
Georgetown, MA 01833-2107 USA

tel: (978) 352-2200
fax: (978) 352-5616

PLANT LOCATIONS
Alabama, California, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, New Jersey and Texas.

INDEPENDENT PUBLIC ACCOUNTANTS
Carlin, Charron & Rosen, LLP
1400 Computer Drive
Westborough, MA 01581

CORPORATE COUNSELS
Lynch Brewer Hoffman & Fink, LLP
101 Federal Street, 22nd Floor
Boston, MA 02110

Brown, Rudnick, Berlack, Israels, LLP
1 Financial Center
Boston, MA 02111

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

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

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

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

Richard L. Bailly **d**
Retired

Kenneth L. Gestal **d**
President & Managing Partner
Decision Capital, LLC

David B. Gould **d**
President
Westfield, Inc.

Marc D. Kozin **d**
President
LEK Consulting, LLC

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

Richard S. LeSavoy **o**
Vice President
Manufacturing

Thomas Oberdorf **d**
Senior Vice President and
Chief Financial Officer
Getty Images, Inc.

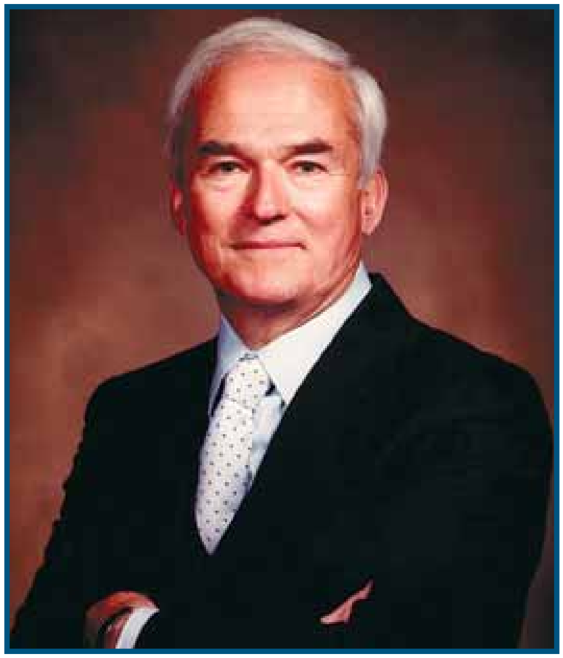
Mitchell C. Rock **o**
Vice President
Sales and Marketing

Michael J. Ross **d**
Director, St Andrews Energy Ltd.
Partner, St Andrews Investments

Daniel J. Shaw, Jr. **o**
Vice President
Product Development

David K. Stevenson **d**
Retired CPA

d Directors **o** Officers



Dedicated to the memory of

William H. Shaw

Bill was a founder of UFP Technologies. He served as Chairman, President and Treasurer from 1963–1994, and continued as Chairman of the Board until his death in August 2006. A true gentleman, remarkable leader and role model, Bill approached each day with boundless enthusiasm. His integrity, creativity, compassion and vision made him a giant in our industry and a wonderful example of a life well lived. Family man, businessman, sailor, environmentalist, volunteer: Bill filled these roles and many more with grace, dignity and infectious joy. He earned the love and respect of everyone within the UFP family; we will work hard every day to honor his memory and to carry forth his legacy with pride.

OPERATING PRINCIPLES

CUSTOMERS

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

ETHICS

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

EMPLOYEES

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

QUALITY

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

SIMPLIFICATION

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

ENTREPRENEURSHIP

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

PROFIT

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

UFP TECHNOLOGIES

UFP TECHNOLOGIES, INC. 172 East Main Street, Georgetown, MA 01833 USA
tel: 978.352.2200 • fax: 978.352.5616 • web: www.ufpt.com