UFP TECHNOLOGIES

BUILDING ON OUR STRENGTHS.

FOCUSED ON OUR FUTURE.

2013 Annual Report

2013 ANNUAL REPORT

UFP Technologies, Inc. (Nasdaq: UFPT) is a producer of innovative custom-engineered components, products, and specialty packaging.

Using foams, plastics, composites, and natural fiber materials, we design and manufacture a vast range of solutions primarily for the medical, automotive, aerospace and defense, and packaging markets. Our team acts as an extension of customers' in-house research, engineering, and manufacturing groups, working closely with them to solve their most complex product and packaging challenges. For our customers, innovation takes many shapes. But each solution is shaped by the design, materials, and process expertise that sets our company apart. Learn more about us at www.ufpt.com.

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Dear Fellow Shareholder,

“We’re developing new products and identifying new opportunities that fit our unique skills. With $37 million in cash, we have the resources to pursue our growth strategy and capitalize on investment opportunities as we uncover them.”

I am pleased to report that 2013 was another strong year for UFP Technologies – our eighth straight year of record earnings and fourth straight year of record sales. We achieved these results despite challenging conditions in some key markets, particularly the military space. Overall, your Company today is in excellent health, and we’re moving forward on many initiatives designed to increase the value we bring to customers and drive long-term profitable growth.

We’re investing in personnel, new technology, factory efficiency and more. We’re streamlining operations, upgrading equipment and expanding our clean room capacity. We’re developing new products and identifying new opportunities that fit our unique skills. With $37 million in cash, we have the resources to pursue our growth strategy and capitalize on investment opportunities as we uncover them.

External growth strategy: patient and disciplined

We continue to seek strategic acquisitions that can enhance our capabilities and increase our value to customers and shareholders. We remain very disciplined in our approach, only targeting companies that offer a great strategic and cultural fit. For example, on January 2, 2013, we announced our most recent acquisition, Packaging Alternatives Corporation. By the end of the quarter, that organization was already contributing to our bottom line. As we identify these types of acquisitions, our seasoned acquisition team and financial strength position us well to respond quickly.

Internal growth strategy: aggressive and collaborative

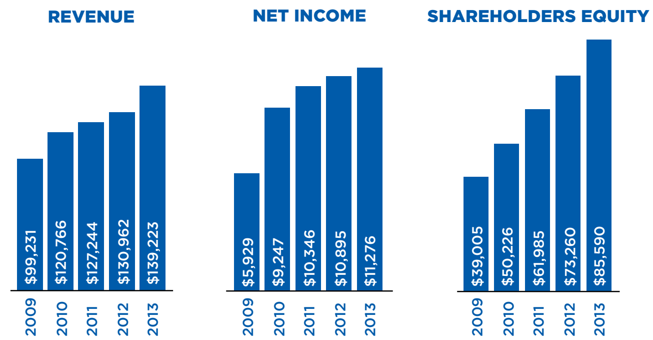
A key tenet of our internal growth strategy is to focus our resources on market opportunities where our unique skills create the greatest customer value. We’re constantly tuning our internal growth engine, refining our go-to-market strategy, and expanding the scope of the opportunities we are well equipped to win and retain. Our strategic vendor partnerships are a big part of this. We work with the industry’s top material suppliers and often collaborate with them to develop and market creative new solutions. These alliances will remain critical to our organic growth efforts.

Tools for better, faster decision-making

Another key initiative is the Enterprise Resource Planning (ERP) system we are installing across the company. It’s giving us new tools to dissect and analyze our business in a number of different ways. The system is designed to help improve the speed and quality of our decision-making, and help us leverage our size by sharing information more efficiently, both internally and with customers. Two facilities are already live on our new and improved system, and the others will be online soon.

Financial Strength

This is the foundation that allows us to move confidently toward all the growth initiatives described here. With $37 million in cash, our balance sheet puts us in a strong position to pursue our strategy, invest our capital wisely, and take the calculated risks we believe are most likely to bring long-term profitable growth down the road.



A more focused and efficient platform

We also work to leverage our size and breadth by constantly improving our operational platform. For example, we plan to consolidate our Illinois operation into our Grand Rapids, Michigan facility when the lease ends this summer. We will use this opportunity to optimize the layout and efficiency of the Grand Rapids plant, and combine more sales and engineering resources under one roof to improve communication and boost new business development.

To better serve our southwestern customers, we are expanding our El Paso operation and adding two new molded fiber production lines in 2014. This new state-of-the-art equipment is designed to improve efficiency and reduce freight costs for product we currently ship from Iowa. Our business in this region is growing quickly, so we are responding with investments that will increase our value to current customers, and help us win new ones.

Medical market continues to drive growth

Medical applications now account for about one-third of our sales, and our list of blue chip customers reads like a who's who of global medical device makers. To serve them even better, we're adding new specialty materials, new products, new capabilities, and more. We have also created new custom equipment for our infection prevention and medical disposable customers. And we continue to develop our own products to complement the successful brands we've already launched in this market.

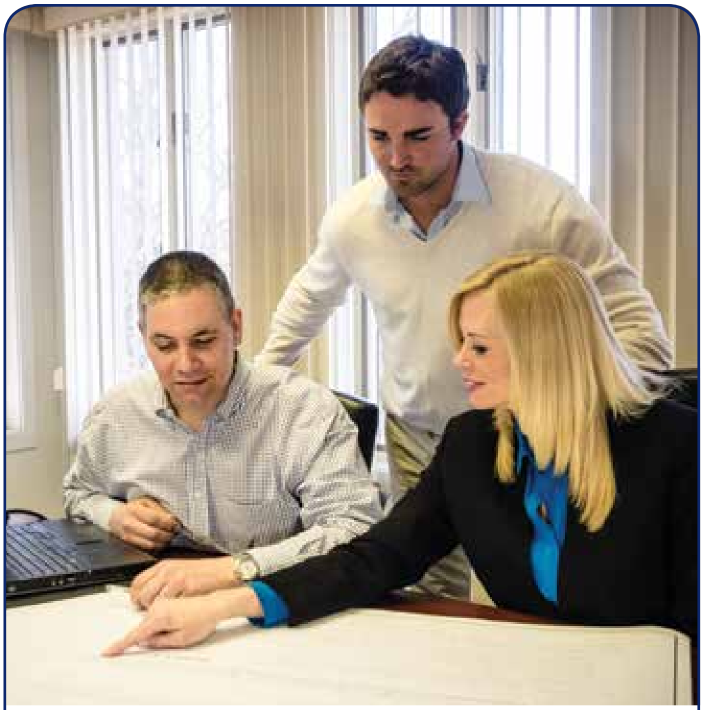
In closing, none of these initiatives would mean much without our dedicated team to execute them. We know the creativity of our talented engineers and their ability to solve complex problems are often why customers buy from us. So we are adding new talent and increasing the visibility of our engineering programs throughout the Company. But it takes an entire team to create a great customer experience, so we are also investing in other critical areas, including quality control, customer service, and R&D. Whether attracting outside talent with fresh ideas, or developing current employees into our next stars, we know that bright, motivated, energized people are the best engine of progress. I thank them for their terrific work in 2013, and thank you for your continued support.

Sincerely,

R. Jeffrey Bailly

R. Jeffrey Bailly
Chairman and CEO

BUILDING ON OUR STRENGTHS.



Engineering Excellence

This is an important differentiator for our Company, and a critical advantage we bring to every customer and project. Customers know they can rely on our design engineers to solve their most important product and packaging challenges. For every application, no matter how complex, our team is up for the challenge and driven to deliver the optimum solution.

Product Innovation

In addition to creating sophisticated applications for customers, we have a growing portfolio of our own branded products. It includes T-Tubes® insulation and BioShell® container systems for the BioPharm industry, FlexShield® pouches for the medical device industry, and Erasables® cleaning sponges for consumers. These have all helped open new markets – and more are in the pipeline.

These are some of the key attributes that have enabled UFP to deliver consistently strong results for you, our shareholders.

Materials Expertise

Our ability to identify the ideal material for any application has always been a key advantage. We work closely with the industry's leading suppliers to offer the latest and most technically advanced materials – and we have preferred access to many of them. These close vendor partnerships are essential to our success, and we will continue to work closely with them to develop new solutions that meet our customers' evolving needs.

Process Skills

We have developed a long list of process innovations that allow us to improve quality and consistency, minimize waste, maximize efficiency, and create solutions that continue to grow lighter, stronger, and more economical. By constantly refining our production skills, we've been able to expand aggressively into new areas and pursue new opportunities – especially those that require the highest levels of quality and precision.

By continually increasing the value we bring to customers, we have positioned our Company well for long-term success.

Diverse Customers

We have more than 3,000 customers across six target markets, including many of the world's best-known companies. We have served some of them for decades. This diversity has helped our Company prosper in varying economic conditions. At any given time, demand will be softer in some markets and more robust in others, and we can shift resources quickly to where the opportunities are greatest.

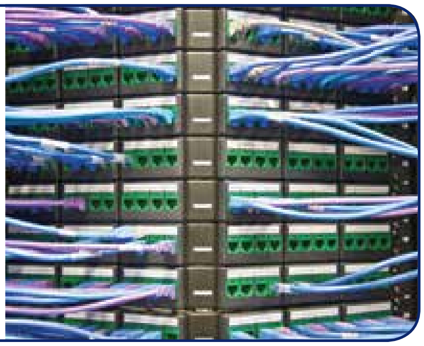
Strategic Acquisitions

After a series of important acquisitions over the past decade, we have developed a systematic approach to identifying, pricing and integrating companies that complement our skills and increase our value to customers. The latest example is PAC, which brought us a strong team and a variety of new capabilities that strengthen our competitive position in the medical space – our largest and fastest growing market.

FOCUSED ON OUR FUTURE.

ERP Implementation

Our new Enterprise Resource Planning system is designed to enable us to share best practices among plants more efficiently, and communicate better with customers as well. Just as important, it should provide insights that allow us to analyze our business with greater precision, and make more informed decisions in all aspects of our operation – from resource planning to product development.



Year after year, we've built a solid platform for growth, and we're moving forward in important ways to make it even stronger.

Footprint Optimization

Opportunities change, we adapt. To better serve our growing southwestern customer base, we are expanding our El Paso, Texas operations and adding new capabilities. We are also consolidating our Illinois operation into our Michigan facility to avoid a steep rent increase and create one high-performing team. These moves are all about increasing the value we bring to customers, improving efficiency, and placing resources where they're needed most.

New State-of-the-art Equipment

In El Paso, we are installing two new cutting-edge molded fiber lines, similar to those we installed in our Iowa facility last year, to meet the rising demand. We are adding other highly efficient manufacturing equipment throughout the Company, including custom-designed equipment for medical applications, and high-speed die cutting equipment in several plants. Our goal is to continue to invest in new production resources wherever strategic opportunities arise.

New Talent

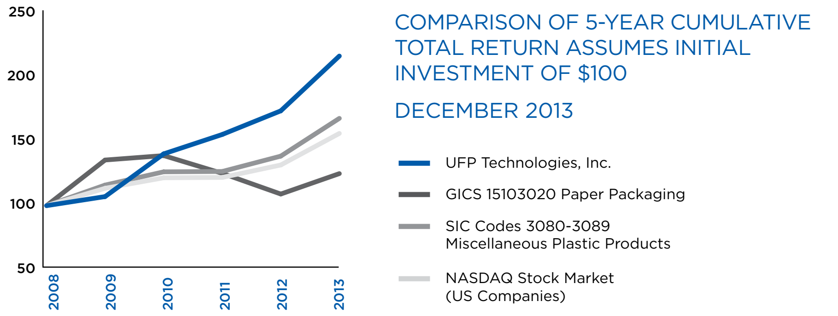
We continue to attract great people who are passionate about innovation and bring fresh ideas to all aspects of our business. From bright young engineers to well-known industry leaders, we are committed to developing a deep bench of highly talented professionals who can flourish in our entrepreneurial culture and help take our Company to the next level.

Bottom line: your Company is in great health, with a multifaceted growth strategy that makes us very bullish about our future.

Expanding Opportunities

We are constantly working to identify and capitalize on new market opportunities that best fit our capabilities. Whether that means enhancing our existing skills or acquiring new ones, solving new customer problems or developing new products ourselves, we are focused on pursuing high-value opportunities that we are strongly positioned to win and maintain.

For the last five years, return on UFP Technologies stock has outperformed our industry peers, and the average return of all U.S. NASDAQ-listed companies, by a wide margin.



SELECTED FINANCIAL DATA

The following table summarizes our consolidated financial data for the periods presented. You should read the following financial information together with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those financial statements appearing elsewhere in this Report. The selected statements of operations data for the fiscal years ended December 31, 2013, 2012, and 2011, and the selected balance sheet data as of December 31, 2013 and 2012, are derived from our audited consolidated financial statements, which are included elsewhere in this Report. The selected statements of operations data for the years ended December 31, 2010 and 2009, and the balance sheet data at December 31, 2011, 2010 and 2009 are derived from our audited consolidated financial statements not included in this Report.

SELECTED CONSOLIDATED FINANCIAL DATA

	Years Ended December 31 (in thousands, except per share data)				
Consolidated statement of operations data[1]	**2013**	**2012**	**2011**	**2010**	**2009**
Net sales	$ 139,223	130,962	127,244	120,766	99,231
Gross profit	40,649	38,185	36,245	34,616	26,719
Operating income	17,398	16,666	15,716	14,392	8,192
Net income attributable to UFP Technologies, Inc.	11,276	10,895	10,346	9,247	5,929
Diluted earnings per share	1.59	1.55	1.48	1.37	0.94
Weighted average number of diluted shares outstanding	7,105	7,028	6,999	6,749	6,294

	As of December 31 (in thousands)				
Consolidated balance sheet data	**2013**	**2012**	**2011**	**2010**	**2009**
Working capital	$ 56,510	51,263	48,575	38,267	27,702
Total assets	105,020	98,617	79,721	69,478	57,855
Short-term debt and capital lease obligations	976	1,550	581	654	623
Long-term debt and capital lease obligations, excluding current portion	2,867	8,314	5,639	6,847	7,502
Total liabilities	19,430	25,357	17,736	19,251	18,849
Stockholders' equity	85,590	73,260	61,985	50,226	39,005

[1] See Note 19 to the consolidated financial statements for segment information.

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. 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, 2012 to December 31, 2013:

Fiscal Year Ended December 31, 2012	High	Low
First Quarter	$19.96	$13.94
Second Quarter	19.62	15.30
Third Quarter	18.50	15.87
Fourth Quarter	18.25	15.27

Fiscal Year Ended December 31, 2013	High	Low
First Quarter	$20.00	$18.00
Second Quarter	20.49	18.06
Third Quarter	22.97	19.38
Fourth Quarter	26.18	21.86

NUMBER OF STOCKHOLDERS

As of March 7, 2014, there were 82 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 2012 or 2013. The Company presently intends to retain all of its earnings to provide funds for the operation of its business and strategic acquisitions, although it would consider paying cash dividends in the future. Any decision to pay dividends will be at the discretion of the Company's board of directors and will depend upon the Company's operating results, strategic plans, capital requirements, financial condition, provisions of the Company's borrowing arrangements, applicable law and other factors the Company's board of directors considers relevant.

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

OVERVIEW

UFP Technologies is a producer of innovative custom-engineered components, products and specialty packaging. The Company serves a myriad of markets, but specifically targets opportunities in the medical, automotive, aerospace and defense and packaging markets. It also produces a variety of standard products that are, in some cases, patented or trademarked.

In 2013 the Company realized record net sales (including sales from Packaging Alternatives Corporation ("PAC"), which the Company acquired in 2012) of $139.2 million, which represents a 6.3% increase over 2012 net sales, and had another year of record profitability as operating income and net income increased 4.4% and 3.5%, respectively. Organic sales (total sales less sales from PAC) decreased 1.5%, primarily due to a 28% decline in sales to the military market due to government cuts in defense spending. This decline was partially offset by increases in sales to the medical market and of molded fiber packaging product.

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

RESULTS OF OPERATIONS

Net sales in the Company's Component Products segment increased 5.7% to $93.2 million in 2013 from $88.2 million in 2012, primarily due to the acquired PAC operations, partially offset by weakness in sales to the military market due to cuts in government spending. Operating income decreased 13.4% to $11.8 million in 2013 from $13.6 million in 2012, primarily due to the reduction in high gross margin military market sales.

Net sales in the Company's Packaging segment increased 7.6% to $46.0 million in 2013 from $42.8 million in 2012. The increase in sales primarily reflects a 21.3% increase in molded fiber packaging product driven in part by added production capacity in 2013, partially offset by a sales decline in foam packaging sales. Operating income increased 83.1% to $5.6 million in 2013 from $3.1 million in 2012. The increase in operating income largely reflects the sales growth in molded fiber. Additional details regarding the Company's segment results of operations are described in Note 19 to the consolidated financial statements.

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:

	2013	2012	2011
Net sales	100.0%	100.0%	100.0%
Cost of sales	70.8%	70.8%	71.5%
Gross profit	**29.2%**	**29.2%**	**28.5%**
Selling, general, and administrative expenses	16.7%	16.4%	16.8%
Gain on sale of fixed assets	0.0%	0.0%	-0.6%
Operating income	**12.5%**	**12.8%**	**12.3%**
Total other expenses (income), net	0.2%	0.1%	0.0%
Income before taxes	**12.3%**	**12.7%**	**12.3%**
Income tax expense	4.2%	4.4%	3.9%
Net income attributable to consolidated operations	**8.1%**	**8.3%**	**8.4%**
Net income attributable to non-controlling interests	0.0%	0.0%	0.3%
Net income attributable to UFP Technologies, Inc.	**8.1%**	**8.3%**	**8.1%**

2013 COMPARED TO 2012

Net sales increased 6.3% to $139.2 million for the year ended December 31, 2013, from net sales of $131.0 million in 2012. The increase in net sales was primarily due to an additional $10.3 million in sales from PAC (Component Products Segment)—which were primarily to the medical market—as well as a 21.3% increase in sales of our molded fiber packaging product (Packaging Segment) due to increased demand for environmentally friendly packaging solutions. Excluding sales at PAC, net sales decreased 1.5% largely due to a 28% decline in sales to the military market due to government cuts in defense spending.

Gross profit as a percentage of sales ("Gross Margin") remained flat at 29.2% for the year ended December 31, 2013. As a percentage of sales, material and direct labor collectively decreased by 0.6% in 2013, due primarily to an improved book of business. This decrease was offset by an increase in overhead as a percentage of sales of 0.6% due largely to increased depreciation expense associated with new machinery.

Selling, General, and Administrative Expenses ("SG&A") increased 7.9% to $23.2 million for the year ended December 31, 2013, from $21.5 million in 2012. The increase in SG&A for the year ended December 31, 2013, is primarily due to increased SG&A at PAC (Component Products Segment). Excluding PAC, SG&A declined approximately $300,000, or 1.3% from 2012, primarily due to a reduction in incentive compensation of approximately $700,000 (both the Component Products and Packaging Segments) partially offset by an increase in professional fees of approximately $390,000 (both the Component Products and Packaging Segments) due to higher audit and compliance fees as well as increased expenses associated with the implementation of ERP software and an increase in net selling expenses of approximately $300,000 (both the Component Products and Packaging Segments) due largely to the investment in additional sales resources. As a percentage of sales, SG&A increased slightly to 16.7% for the year ended December 31, 2013, from 16.4% for the same period in 2012. The slight increase in SG&A as a percentage of sales is primarily due to relatively fixed SG&A expenses measured against lower organic sales.

Interest expense net of interest income increased to approximately $205,000 for the year ended December 31, 2013, from net interest expense of approximately $90,000 in 2012. The increase in interest expense is primarily attributable to increased debt levels during the year associated with financing molded fiber equipment.

The Company recorded income tax expense as a percentage of income before income tax expense, of 34.4% and 34.3% for the years ended December 31, 2013 and 2012, respectively. The slight increase in the effective tax rate for the year ended December 31, 2013, is primarily attributable to higher anticipated state taxes. 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 are more likely than not to be realized, and has not recorded a tax valuation allowance at December 31, 2013. The Company will continue to assess whether the deferred tax assets will be realizable and, when appropriate, will 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 carry-forward period are reduced.

2012 COMPARED TO 2011

Net sales increased 2.9% to $131.0 million for the year ended December 31, 2012, from net sales of $127.2 mil-lion in 2011. The $3.8 million increase in sales was largely attributable to increased sales to the medical market of approximately $3.1 million (Component Products segment) as well as a $2.7 million increase in sales of molded fiber packaging reflecting increased demand for environmentally friendly packaging solutions (Component Products segment). These sales increases were partially offset by a $5 million reduction in sales from the phase-out of a significant portion of an automotive program in the Southeast.

Gross Margin increased to 29.2% for the year ended December 31, 2012, from 28.5% in 2011. The increase in gross margin was primarily attributable to improved quality of our book of business relating to the sales increases in the medical market and of molded fiber packaging (as a percentage of sales, material, and direct labor collectively decreased by 0.9% in 2012).

SG&A increased slightly to $21.5 million for the year ended December 31, 2012, from $21.4 million in 2011. The slight increase in SG&A for the year ended December 31, 2012, was primarily due to increased compensation programs of approximately $100,000 (higher plant bonuses across both the Component Products and Packaging segments due to improved performance) and increased office and equipment depreciation expense of approximately $100,000 (due to ERP and other infrastructure computer hardware across both the Component Products and Packaging segments), partially offset by a reduction of approximately $100,000 in professional and consulting fees (prior year initiatives across both the Component Products and Packaging segments). As a percentage of sales, SG&A decreased to 16.4% for the year ended December 31, 2012 from 16.8% for the same period in 2011. The reduction in SG&A as a percentage of sales was primarily due to relatively flat SG&A expenses measured against higher sales.

Interest expense net of interest income increased to approximately $90,000 for the year ended December 31, 2012, from net interest expense of approximately $27,000 in 2011. The increase in interest expense was primarily attributable to lower interest earned on excess cash balances, as well as increased debt associated with financing molded fiber equipment.

The gain on sale of assets of approximately $839,000 in 2011 was derived primarily from the sale of real estate in Alabama by United Development Company Limited ("UDT"). Of this $839,000 gain, approximately $428,000 relates to non-controlling interests that have been deducted to determine net income attributable to UFP Technologies, Inc., and $250,000 represents a one-time fee paid to the Company for managing the transaction.

The Company recorded income tax expense as a percentage of income before income tax expense, excluding net income attributable to non-controlling interests, of 34.3% and 31.3% for the years ended December 31, 2012, and 2011, respectively. The increase in the effective tax rate for the year ended December 31, 2012, was primarily attributable to the reversal in 2011 of approximately $385,000 in reserves previously established for uncertain tax benefits due to a favorable outcome on a concluded Federal Internal Revenue Service audit and the statute of limitations expiring on certain other federal income tax filings as well as increased deductions associated with domestic manufacturing. The non-controlling interest previously held in UDT was not subject to corporate income tax, which also caused the effective tax rate to be lower in 2011 than 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Company generally funds its operating expenses, capital requirements, and growth plan through internally-generated cash, but also has the ability to draw on additional cash through our credit facility, if necessary.

As of December 31, 2013, and 2012, working capital was approximately $56.5 million and $51.3 million, respectively. The increase in working capital is primarily attributable to an increase in cash of approximately $3.8 million generated through operating income; increased inventory of approximately $1.4 million due to the timing of raw materials purchases; and a decrease in accounts payable and accrued expenses of approximately $0.3 million due to the timing of payments of vendor invoices in the ordinary course of business; partially offset by a decrease in accounts receivable due to the timing of customer payments.

Net cash provided by operating activities in 2013 was approximately $16.1 million and primarily consisted of net income of approximately $11.3 million, plus depreciation and amortization of approximately $4.1 million and share-based compensation of approximately $0.9 million, partially offset by the net working capital increases noted above.

Net cash used in investing activities in 2013 was approximately $6.4 million and included approximately $5.8 million in additions to property, plant and equipment and $0.6 million in a holdback payment related to the acquisition of PAC.

Net cash used in financing activities was approximately $5.9 million and consisted primarily of principal repayments of long-term debt of approximately $6.6 million and payments of statutory withholding tax related to share-based compensation of approximately $1.1 million, partially offset by proceeds from long-term borrowings of approximately $0.6 million and excess tax benefits related to share-based compensation of approximately $0.8 million.

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

In conjunction with the execution of the new credit facility, the Company fully paid approximately $5.1 million in debt previously outstanding under the Company's prior credit facility with Bank of America, N.A., which was terminated on December 2, 2013. As of December 31, 2013, the Company had no borrowings outstanding under the new credit facility.

On October 11, 2012, the Company entered into a loan agreement to finance the purchase of two new molded fiber machines. The annual interest rate is fixed at 1.83%. As of December 31, 2013, approximately $5.0 million had been advanced on the loan and the outstanding balance is approximately $3.8 million. The loan will be repaid over a five-year term. The loan is secured by the related molded fiber machines.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations at December 31, 2013 (in thousands):

		Payment Due By Period			
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Equipment Loans	$ 3,843	$ 976	$ 2,008	$ 859	$ -
Operating Leases	5,392	1,686	2,694	1,012	-
Debt interest	137	61	69	7	-
Supplemental Retirement	171	46	50	50	25
Total	**$ 9,543**	**$ 2,769**	**$ 4,821**	**$ 1,928**	**$ 25**

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, 2013, it cannot guarantee that its operations will generate cash in future periods. Subject to the Risk Factors set forth in Part I, Item 1A of this Report and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset of this Report, we believe that cash flow from operations will provide us with sufficient funds in order to fund our expected operations over the next twelve months.

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

OFF-BALANCE-SHEET ARRANGEMENTS

The Company had no off-balance-sheet arrangements in 2013, other than operating leases.

CRITICAL ACCOUNTING POLICIES

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

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of this Report. The Company believes the following critical accounting policies necessitated that significant judgments and estimates be used in the preparation of its consolidated financial statements.

The Company has reviewed these policies with its Audit Committee.

- **Revenue Recognition** 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 collection. 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 judgment. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue for any reporting period could be adversely affected.

- **Goodwill** Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. The Company's reporting units include its Component Products segment, Packaging segment (excluding its Molded Fiber operation), and its Molded Fiber operation. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company assessed qualitative factors as of December 31, 2013, and determined that it was more likely than not that the fair value of its reporting units exceeded their respective carrying amounts. Factors considered for each reporting unit included financial performance, forecasts and trends, market cap, regulatory and environmental issues, market analysis, recent transactions, macro-economic conditions, industry and market considerations, raw material costs, management stability, and the degree by which the fair value of each reporting unit exceeded its carrying value in 2010 when the Company last performed Step 1 of the goodwill impairment test, which requires a comparison of each reporting unit's fair value to its carrying value (approximately $37 million or 161% and $7 million or 190% for the Component Products and Molded Fiber reporting units, respectively). As a result of this assessment, Step 1 of the goodwill impairment test was not performed in 2013.

- **Accounts Receivable** The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded 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, 2013.

- **Inventories** Inventories include material, labor, and manufacturing overhead and 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 for potential obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2013.

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, 2013, the Company's cash and cash equivalents consisted of bank accounts in U.S. dollars, and their valuation would not be affected by market risk. Interest under the Company's credit facility with Bank of America, N.A. is based upon either the Prime rate or LIBOR and, therefore, future operations could be affected by interest rate changes. However, as of December 31, 2013, the Company had no borrowings outstanding under the revolving credit facility, and the Company believes the market risk associated with the facility is minimal.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of UFP Technologies, Inc.

We have audited the accompanying consolidated balance sheets of UFP Technologies, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial position of UFP Technologies, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2014 expressed an unqualified opinion.

Grant Thornton LLP

GRANT THORNTON LLP
Boston, MA
March 14, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of UFP Technologies, Inc.

We have audited the internal control over financial reporting of UFP Technologies, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2013, and our report dated March 14, 2014 expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

GRANT THORNTON LLP
Boston, MA
March 14, 2014

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	December 31 2013	December 31 2012
Current assets:		
Cash and cash equivalents	$ 37,303	$ 33,480
Receivables, net	17,032	17,836
Inventories	11,048	9,695
Prepaid expenses	690	654
Refundable income taxes	1,537	1,713
Deferred income taxes	1,222	1,116
Total current assets	**68,832**	**64,494**
Property, plant, and equipment	64,574	59,569
Less accumulated depreciation and amortization	(39,067)	(36,251)
Net property, plant, and equipment	25,507	23,318
Goodwill	7,322	7,039
Intangible assets, net	1,346	2,084
Other assets	2,013	1,682
Total assets	**$ 105,020**	**$ 98,617**

LIABILITIES AND STOCKHOLDERS' EQUITY	2013	2012
Current liabilities:		
Accounts payable	$ 3,081	$ 4,088
Accrued expenses	8,265	7,593
Current installments of long-term debt	976	1,550
Total current liabilities	**12,322**	**13,231**
Long-term debt, excluding current installments	2,867	8,314
Deferred income taxes	2,436	1,590
Retirement and other liabilities	1,805	2,222
Total liabilities	**19,430**	**25,357**
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock, $.01 par value. Authorized 20,000,000 shares; issued and outstanding 6,900,683 shares in 2013 and 6,749,913 in 2012	69	67
Additional paid-in capital	20,291	19,239
Retained earnings	65,230	53,954
Total stockholders' equity	**85,590**	**73,260**
Total liabilities and stockholders' equity	**$ 105,020**	**$ 98,617**

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE DATA)

	Years Ended December 31		
	2013	**2012**	**2011**
Net sales	$ 139,223	$ 130,962	$ 127,244
Cost of sales	98,574	92,777	90,999
Gross profit	**40,649**	**38,185**	**36,245**
Selling, general, and administrative expenses	23,240	21,531	21,367
Loss (gain) on sales of property, plant, and equipment	11	(12)	(838)
Operating Income	**17,398**	**16,666**	**15,716**
Other expenses:			
Interest expense, net	205	90	27
Other, net	—	2	—
Total other expense	205	92	27
Income before income tax provision	**17,193**	**16,574**	**15,689**
Income tax expense	5,917	5,679	4,905
Net income from consolidated operations	**11,276**	**10,895**	**10,784**
Net income attributable to non-controlling interests	—	—	(438)
Net income attributable to UFP Technologies, Inc.	**$ 11,276**	**$ 10,895**	**$ 10,346**
Net income per share:			
Basic	$ 1.65	$ 1.63	$ 1.60
Diluted	$ 1.59	$ 1.55	$ 1.48
Weighted average common shares:			
Basic	6,824	6,679	6,476
Diluted	7,105	7,028	6,999

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2013, 2012, and 2011

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interests	Total Stockholders' Equity
Balance at December 31, 2010	**6,339**	**$ 63**	**$ 16,924**	**$ 32,713**	**$ 526**	**$ 50,226**
Stock issued in lieu of compensation	3	—	55	—	—	55
Share-based compensation	69	1	1,088	—	—	1,089
Exercise of stock options net of shares presented for exercise	144	2	249	—	—	251
Net share settlement of restricted stock units and stock option tax withholding	—	—	(830)	—	—	(830)
Excess tax benefits on share-based compensation	—	—	700	—	—	700
Net income	—	—	—	10,346	438	10,784
Distribution to non-controlling interests	—	—	—	—	(290)	(290)
Balance at December 31, 2011	**6,555**	**$ 66**	**$ 18,186**	**$ 43,059**	**$ 674**	**$ 61,985**
Share-based compensation	62	—	860	—	—	860
Exercise of stock options net of shares presented for exercise	133	1	364	—	—	365
Net share settlement of restricted stock unit and stock option tax withholding	—	—	(672)	—	—	(672)
Excess tax benefits on share-based compensation	—	—	831	—	—	831
Net income	—	—	—	10,895	—	10,895
Distribution to non-controlling interests	—	—	—	—	(674)	(674)
Investment in United Development Company Limited (Note 7)	—	—	(330)	—	—	(330)
Balance at December 31, 2012	**6,750**	**$ 67**	**$ 19,239**	**$ 53,954**	**$ —**	**$ 73,260**
Share-based compensation	38	1	923	—	—	924
Exercise of stock options net of shares presented for exercise	113	1	190	—	—	191
Net share settlement of restricted stock unit and stock option tax withholding	—	—	(879)	—	—	(879)
Excess tax benefits on share-based compensation	—	—	818	—	—	818
Net income	—	—	—	11,276	—	11,276
Balance at December 31, 2013	**6,901**	**$ 69**	**$ 20,291**	**$ 65,230**	**$ —**	**$ 85,590**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net income from consolidated operations	$ 11,276	$ 10,895	$ 10,784
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,084	2,928	2,781
Loss (gain) on sales of property, plant, and equipment	11	(12)	(838)
Share-based compensation	924	860	1,089
Stock issued in lieu of compensation	—	—	55
Deferred income taxes	740	610	452
Excess tax benefits on share-based compensation	(818)	(832)	(700)
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables, net	804	(842)	(985)
Inventories	(1,353)	801	(1,714)
Prepaid expenses	(36)	(65)	476
Refundable income taxes	994	(695)	327
Accounts payable	(1,007)	384	507
Accrued expenses	1,272	2,143	(440)
Retirement and other liabilities	(417)	190	(12)
Other assets	(368)	(203)	(66)
Net cash provided by operating activities	**16,106**	**16,162**	**11,716**
Cash flows from investing activities:			
Additions to property, plant, and equipment	(5,830)	(11,994)	(3,741)
Holdback payment related to the acquisition of Packaging Alternatives Corporation (PAC)	(600)	—	—
Redemption of cash value life insurance	37	—	—
Acquisition of PAC net of cash acquired	—	(3,596)	—
Proceeds from sale of property, plant, and equipment	1	86	1,223
Net cash used in investing activities	**(6,392)**	**(15,504)**	**(2,518)**
Cash flows from financing activities:			
Distribution to United Development Company Partners (non-controlling interest)	—	(1,196)	(290)
Excess tax benefits on share-based compensation	818	832	700
Proceeds from the exercise of stock options net of attestations	191	365	251
Principal repayment of long-term debt	(6,601)	(740)	(1,282)
Payment of statutory withholding for stock options exercised and restricted stock units vested	(879)	(672)	(830)
Proceeds from long-term borrowings	580	4,384	—
Net cash provided by (used in) financing activities	**(5,891)**	**2,973**	**(1,451)**
Net change in cash and cash equivalents	3,823	3,631	7,747
Cash and cash equivalents at beginning of year	33,480	29,849	22,102
Cash and cash equivalents at end of year	**$ 37,303**	**$ 33,480**	**$ 29,849**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

UFP Technologies, Inc. ("the Company") is an innovative designer and custom converter of foams, plastics, composites and natural fiber products principally serving the medical, automotive, aerospace and defense, and packaging markets. The Company was incorporated in the State of Delaware in 1993.

(a) Principles of Consolidation

The consolidated financial statements include the accounts and results of operations of UFP Technologies, Inc., its wholly-owned subsidiaries, Moulded Fibre Technology, Inc., Simco Industries, Inc. and Stephenson & Lawyer, Inc. and its wholly-owned subsidiary, Patterson Properties Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including allowance for doubtful accounts and the net realizable value of inventory, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Fair Value Measurement

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurement or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

The Company has not elected fair value accounting for any financial instruments for which fair value accounting is optional.

(d) Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued taxes and other liabilities are stated at carrying amounts that approximate fair value because of the short maturity of those instruments. The carrying amount of the Company's long-term debt approximates fair value as the interest rate on the debt approximates the Company's current incremental borrowing rate.

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013, and 2012, cash equivalents primarily consisted of money market accounts and certificates of deposit that are readily convertible into cash.

The Company maintains its cash in bank deposit accounts, money market funds, and certificates of deposit that at times exceed federally insured limits. The Company periodically reviews the financial stability of institutions holding its accounts, and does not believe it is exposed to any significant custodial credit risk on cash. The Company's main operating account with Bank of America exceeds federal depository insurance limit by approximately $32.3 million.

(f) Accounts Receivable

The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded 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, 2013.

(g) Inventories

Inventories include material, labor, and manufacturing overhead and 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 for potential obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2013.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets or the related lease term, if shorter.

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

Leasehold improvements	Shorter of estimated useful life or remaining lease term
Buildings and improvements	20-31.5 years
Machinery & Equipment	7-10 years
Furniture, fixtures, computers & software	3-7 years

Property, plant, and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value.

(i) Goodwill

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. The Company's reporting units include its Component Products segment, Packaging segment (excluding its Molded Fiber operation), and its Molded Fiber operation. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company assessed qualitative factors as of December 31, 2013, and determined that it was more likely than not that the fair value of its reporting units exceeded their respective carrying amounts. Factors considered for each reporting unit included financial performance, forecasts and trends, market cap, regulatory and environmental issues, market analysis, recent transactions, macro-economic conditions, industry and market considerations, raw material costs, management stability, and the degree by which the fair value of each reporting unit exceeded its carrying value in 2010 when the Company last performed Step 1 of the goodwill impairment test, which requires a comparison of each reporting unit's fair value to its carrying value (approximately $37 million or 161% and $7 million or 190% for the Component Products and Molded Fiber reporting units, respectively). As a result of this assessment, Step 1 of the goodwill impairment test was not performed in 2013. Changes in the carrying amounts of goodwill (by segment) are as follows (in thousands):

	Goodwill		
	Component Products Years	**Packaging Segment**	**Total**
Balance - January 1, 2013	$ 5,021	$ 2,018	$ 7,039
PAC Acquisition - refinement of estimates in the initial purchase price allocation (See Note 18)	283	-	283
Balance - December 31, 2013	**$ 5,304**	**$ 2,018**	**$ 7,322**

(j) Intangible Assets

Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from 5 to 14 years. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their carrying values may not be recoverable.

(k) 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 collection. 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 judgment.

(l) Share-Based Compensation

When accounting for equity instruments exchanged for employee services, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

Share-based compensation cost that has been charged against income for stock compensation plans is as follows (in thousands):

	Year Ended December 31		
	2013	2012	2011
Selling, general, and administrative expenses	$ 924	$ 860	$ 1,089

The compensation expense for stock options granted during the three-year period ended December 31, 2013, was determined as the fair value of the options using the Black Scholes valuation model. 2013 compensation expense for stock options granted prior to January 1, 2012 was determined as the fair value of the options using a lattice-based option valuation model. The assumptions are noted as follows:

	Year Ended December 31		
	2013	2012	2011
Expected volatility	34.0% to 50.0%	56.9%	54.8% to 73.3%
Expected dividends	None	None	None
Risk-free interest rate	0.4% to 0.7%	0.4%	0.9% to 2.9%
Exercise price	Closing price on date of grant	Closing price on date of grant	Closing price on date of grant
Expected term	3.3 to 5.0 years	5.0 years	4.6 to 7.7 years
Weighted-average grant-date fair value	$ 5.84	$ 7.72	$ 5.75

The stock volatility for each grant is determined based on a review of the experience of the weighted average of historical daily price changes of the Company's common stock over the expected option term, and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The expected term is calculated based on the simplified method.

The total income tax benefit recognized in the statement of operations for share-based compensation arrangements was approximately $280,000, $270,000, and $359,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

(m) Deferred Rent

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

(n) Shipping and Handling Costs

Costs incurred related to shipping and handling are included in cost of sales. Amounts charged to customers pertaining to these costs are included in net sales.

(o) Research and Development

On a routine basis, the Company incurs costs related to research and development activity. These costs are expensed as incurred. Approximately $1.2 million, $1.3 million, and $1.2 million were expensed in the years ended December 31, 2013, 2012, and 2011, respectively.

(p) Income Taxes

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

The Company evaluates the need for a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. Should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense.

(q) Segments and Related Information

The Company follows the provisions of ASC 280, Segment Reporting, which establish standards for the way public business enterprises report information and operating segments in annual financial statements (see Note 19).

(2) Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows (in thousands):

	Year Ended December 31		
	2013	**2012**	**2011**
Interest	$ 210	$ 58	$ 127
Income taxes, net of refunds	$ 4,199	$ 4,960	$ 3,793

The purchase of substantially all of the assets of Packaging Alternatives Corporation in 2012 included consideration in the form of a holdback of $600,000 and a long-term note valued at $692,000.

(3) Receivables and Net Sales

Receivables consist of the following (in thousands):

	December 31	
	2013	**2012**
Accounts receivable—trade	$ 17,544	$ 18,331
Less allowance for doubtful receivables	(512)	(495)
	$ 17,032	**$ 17,836**

Receivables are written off against these reserves in the period they are determined to be uncollectible, and payments subsequently received on previously written-off receivables are recorded as a reversal of the bad debt provision. The Company performs credit evaluations on its customers and obtains credit insurance on a large percentage of its accounts, but does not generally require collateral. The Company recorded a provision for doubtful accounts of approximately $32,000 and $113,000 for the years ended December 31, 2013 and 2012, respectively.

(4) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2013	**2012**
Raw materials	$ 6,627	$ 6,260
Work in process	1,056	675
Finished goods	3,365	2,760
	$ 11,048	**$ 9,695**

(5) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2013 and 2012, are as follows (in thousands):

	Patents	Non-Compete	Customer List	Total
Estimated useful life	14 years	5 years	5 years	
Gross amount at December 31, 2013	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2013	(429)	(249)	(963)	(1,641)
Net balance at December 31, 2013	**$ —**	**$ 263**	**$ 1,083**	**$ 1,346**
Gross amount at December 31, 2012	$ 429	$ 512	$ 2,306	$ 3,247
Accumulated amortization at December 31, 2012	(429)	(156)	(578)	(1,163)
Net balance at December 31, 2012	**$ —**	**$ 356**	**$ 1,728**	**$ 2,084**

Amortization expense related to intangible assets was approximately $478,000, $164,000 and $195,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Future amortization for the years ending December 31 will be approximately (in thousands):

2014	$ 393
2015	318
2016	318
2017	317
Total	**$ 1,346**

(6) Property, Plant, and Equipment

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

	December 31	
	2013	**2012**
Land and improvements	$ 840	$ 840
Buildings and improvements	12,576	8,773
Leasehold improvements	2,918	3,857
Machinery & Equipment	41,964	39,046
Furniture, fixtures, computers & software	4,903	4,202
Construction in progress–equipment	1,373	2,851
	$ 64,574	**$ 59,569**

Depreciation and amortization expense for the years ended December 31, 2013, 2012 and 2011, were approximately $3.6 million, $2.8 million and $2.6 million, respectively.

(7) Investment in and Advances to Affiliated Partnership

In prior periods the Company had a 26.32% ownership interest in a realty limited partnership, United Development Company Limited ("UDT"). The Company had consolidated the financial statements of UDT for prior periods because it determined that UDT was a Variable Interest Entity ("VIE") of which the Company was the primary beneficiary. On February 29, 2012, the Company purchased the manufacturing building that it leased from UDT for $1,350,000. Since this transaction took place among commonly controlled companies, the building was recorded by the Company at UDT's carrying value. Subsequently, UDT was dissolved and its assets were distributed. Thus, in effect, the Company has acquired the remaining 73.68% ownership interest in UDT, eliminating the VIE. The non-controlling interests' portion of the excess of the amount paid for the building over UDT's carrying value, totaling $329,972, which is net of the tax effect of the difference in the Company's book basis versus tax basis in the acquired building attributable to the non-controlling interest, has been recorded in stockholders' equity as a reduction to additional paid-in capital. The transaction did not impact the consolidated results of operations.

(8) Indebtedness

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

In conjunction with the execution of the new credit facility, the Company fully paid approximately $5.1 million in debt previously outstanding under the Company's prior credit facility with Bank of America, N.A., which was terminated on December 2, 2013. As of December 31, 2013, the Company had no borrowings outstanding under the new credit facility.

On October 11, 2012, the Company entered into a loan agreement to finance the purchase of two new molded fiber machines. The annual interest rate is fixed at 1.83%. As of December 31, 2013, approximately $5.0 million had been advanced on the loan and the outstanding balance was approximately $3.8 million. The loan will be repaid over a five-year term. The loan is secured by the related molded fiber machines.

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

	December 31	
	2013	**2012**
Equipment loans	$ 3,843	$ 4,225
Mortgage notes	—	4,726
Note payable	—	913
Total long-term debt	**3,843**	**9,864**
Current Installments	(976)	(1,550)
Long-term debt, excluding current installments	**$ 2,867**	**$ 8,314**

Aggregate maturities of long-term debt are as follows (in thousands):

Year ending December 31:	
2014	$ 976
2015	995
2016	1,013
2017	859
	$ 3,843

(9) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2013	**2012**
Compensation	$ 2,568	$ 2,890
Benefits/self-insurance reserve	588	626
Paid time off	883	869
Commissions payable	503	355
Unrecognized tax benefits (See Note 10)	275	290
Customer deposit	1,427	—
Contingent note payable - PAC (See Note 18)	745	—
PAC purchase hold-back	—	600
Other	1,276	1,963
	$ 8,265	**$ 7,593**

(10) Income Taxes

The Company's income tax provision (benefit) for the years ended December 31, 2013, 2012, and 2011, consists of the following In thousands):

	Years Ended December 31		
	2013	**2012**	**2011**
Current:			
Federal	$ 4,353	$ 4,301	$ 3,752
State	824	768	701
	5,177	**5,069**	**4,453**
Deferred:			
Federal	641	699	396
State	99	(89)	56
	740	**610**	**452**
Total income tax provision	**$ 5,917**	**$ 5,679**	**$ 4,905**

At December 31, 2013, the Company had net operating loss carryforwards for federal income tax purposes of approximately $1.0 million, 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 federal net operating loss carryforwards will be limited to approximately $300,000 per year in accordance with Section 382 of the Internal Revenue Code.

The approximate tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows (in thousands):

	December 31	
	2013	**2012**
Current deferred tax assets:		
Reserves	$ 495	$ 383
Inventory capitalization	244	205
Compensation programs	204	245
Retirement liability	33	55
Equity-based compensation	246	228
Total current deferred tax assets:	**$ 1,222**	**$ 1,116**
Long-term deferred tax assets/(liabilities):		
Excess of book over tax basis of fixed assets	$ (2,413)	$ (1,688)
Goodwill	(827)	(751)
Intangible assets	—	(69)
Total long-term deferred tax liabilities	**$ (3,240)**	**$ (2,508)**
Net operating loss carryforwards	$ 342	$ 443
Deferred rent	46	67
Intangible assets	5	—
Compensation programs	411	408
Total long-term deferred tax assets	**804**	**918**
Net long-term deferred tax liabilities	**$ (2,436)**	**$ (1,590)**

The amounts recorded as deferred tax assets as of December 31, 2013 and 2012, represent the amount of tax benefits of existing deductible temporary differences or carryforwards that are more likely than not to be realized through the generation of sufficient future taxable income within the carryforward period. The Company has total deferred tax assets of $2.0 million at December 31, 2013, that it believes are more likely than not to be realized in the carryforward period. Management reviews the recoverability of deferred tax assets during each reporting period.

The 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		
	2013	**2012**	**2011**
Computed “expected” tax rate	34.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	3.6	2.7	3.4
Meals and entertainment	0.1	0.1	0.1
R&D credits	(1.0)	(0.1)	(0.4)
Domestic production deduction	(2.4)	(2.5)	(2.8)
Non-deductible ISO stock option expense	0.2	0.1	0.1
Unrecognized tax benefits	(0.1)	(0.2)	(2.4)
Income of non-controlling interests	-	-	(1.0)
Other	-	0.2	0.3
Effective tax rate	**34.4%**	**34.3%**	**31.3%**

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan which have been audited through 2004, and income tax returns filed in Massachusetts for 2005 and 2006, and Florida for 2007, 2008 and 2009 (which are currently being audited). The Company’s federal tax return for 2008 has been audited. Federal and state tax returns for the years 2010 through 2012 remain open to examination by the IRS and various state jurisdictions.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits ("UTB") resulting from uncertain tax positions is as follows (in thousands):

	December 31	
	2013	2012
Gross UTB balance at beginning of fiscal year	$ 290	$ 320
Increases for tax positions of prior years	10	—
Reductions for tax positions of prior years	(25)	(30)
Gross UTB balance at end of fiscal year	**$ 275**	**$ 290**

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2013 and 2012, are $275,000 and $290,000, respectively, for each year.

At December 31, 2013 and 2012, there was no accrued interest or penalties on uncertain tax positions.

At December 31, 2013, all of the unrecognized tax benefits relate to tax returns of a specific state jurisdiction that are currently under examination. Accordingly, the Company expects a reduction of this amount during 2014, since the Company expects to resolve this examination in 2014.

(11) Net Income Per Share

Basic income per share is based upon the weighted average common shares outstanding during each year. Diluted income per share is based upon the weighted average of common shares and dilutive common stock equivalent shares outstanding during each year. The weighted average number of shares used to compute both basic and diluted income per share consisted of the following (in thousands):

	Years Ended December 31		
	2013	2012	2011
Basic weighted average common shares outstanding during the year	6,824	6,679	6,476
Weighted average common equivalent shares due to stock options and restricted stock units	281	349	523
Diluted weighted average common shares outstanding during the year	**7,105**	**7,028**	**6,999**

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock options, when the average market price of the common stock is lower than the exercise price of the related options during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would have been antidilutive. For the years ended December 31, 2013, 2012 and 2011, the number of stock awards excluded from the computation was 78,908, 17,770 and 23,205, respectively.

(12) Stock Option and Equity Incentive Plans

Employee Stock Option Plan

The Company's 1993 Employee Stock Option Plan ("Employee Stock Option Plan"), which is stockholder approved, provides long-term rewards and incentives in the form of stock options 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 Compensation Committee. These options expire over 5- to 10-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 options, except for options granted to officers, which may vest on a different schedule. At December 31, 2013, there were 110,000 options outstanding under the Employee Stock Option Plan. The plan expired on April 12, 2010.

Incentive Plan

In June 2003, the Company formally adopted the 2003 Incentive Plan (the "Plan"). The Plan was originally intended to benefit the Company by offering equity-based incentives to certain of the Company's executives and employees, thereby giving them a permanent stake in the growth and long-term success of the Company and encouraging the continuance of their involvement with the Company's businesses. The Plan was amended effective June 4, 2008, to permit certain performance-based cash awards to be made under the Plan. The Plan was further amended on June 8, 2011, to increase the maximum number of shares of common stock in the aggregate to be issued to 2,250,000. The amendment also added appropriate language so as to enable grants of stock-based awards under the Plan to continue to be eligible for exclusion from the $1,000,000 limitation on deductibility under Section 162(m) of the Internal Revenue Code (the "Code"). The Plan was further amended on March 7, 2013 to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options.

Two types of equity awards may be granted to participants under the Plan: restricted shares or other stock awards. Restricted shares are shares of common stock awarded subject to restrictions and to possible forfeiture upon the occurrence of specified events. Other stock awards are awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of common stock. Such awards may include Restricted Stock Unit Awards ("RSUs"), unrestricted or restricted stock, incentive and non-qualified stock options, performance shares, or stock appreciation rights. The Company determines the form, terms, and conditions, if any, of any awards made under the Plan.

Through December 31, 2013, 1,102,098 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 50,900 shares are being reserved for outstanding grants of RSUs and other share-based compensation that are subject to various performance and time-vesting contingencies. The Company has also granted awards in the form of stock options under this Plan. Through December 31, 2013, 150,000 options have been granted and 106,250 options are outstanding. At December 31, 2013, 958,252 shares or options are available for future issuance in the 2003 Incentive Plan.

Director Plan

Effective July 15, 1998, the Company adopted the 1998 Director Plan, which was amended and renamed, on June 3, 2009, the 2009 Non-Employee Director Stock Incentive Plan (the "Director Plan"). The Director Plan was amended on March 7, 2013 to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options. The Director Plan, as amended, provides for the issuance of stock options and other equity-based securities of up to 975,000 shares to non-employee members of the Company's board of directors. At December 31, 2013, there were 251,250 options outstanding. For the year ended December 31, 2013, 3,144 shares of common stock were issued and 198,278 shares remained available to be issued under the Director Plan.

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

	Shares Under Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2012	**493,888**	**$ 5.47**	—	—
Granted	97,362	19.74	—	—
Exercised	(123,750)	3.36	—	—
Cancelled or expired	—	—	—	—
Outstanding December 31, 2013	**467,500**	**$ 9.00**	**3.65**	**$ 7,584**
Exercisable at December 31, 2013	**368,751**	**$ 6.51**	**3.58**	**$ 6,900**
Vested and expected to vest at December 31, 2013	**467,500**	**$ 9.00**	**3.65**	**$ 7,584**

During the years ended December 31, 2013, 2012 and 2011, the total intrinsic value of all options exercised (i.e., the difference between the market price and the price paid by the employees to exercise the options) was approximately $2.1 million, $2.0 million and $2.2 million, respectively, and the total amount of consideration received from the exercise of these options was approximately $416,000, $506,000 and $344,000, respectively. At its discretion, the Company allows option holders to surrender previously owned common stock in lieu of paying the exercise price and withholding taxes. During the year ended December 31, 2013, 26,662 shares (10,955 for options and 15,707 for taxes) were surrendered at an average market price of $20.54. During the years ended December 31, 2012 and 2011, 22,161 shares were surrendered at an average market price of $18.01 and 20,492 shares were surrendered at an average market price of $17.64, respectively.

During the years ended December 31, 2013, 2012 and 2011, the Company recognized compensation expense related to stock options granted to directors and employees of approximately $214,000, $133,000 and $141,000, respectively.

On February 18, 2013, the Company's Compensation Committee approved an award of $400,000 payable in shares of the Company's common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Equity Incentive Plan. The shares were issued on December 17, 2013. The Company has recorded compensation expense of $400,000 for the year ended December 31, 2013. Stock compensation expense of $300,000 and $423,000 was recorded in 2012 and 2011, respectively, for similar awards.

On June 12, 2013, the Company issued 1,227 shares of unrestricted common stock to the non-employee members of the Company's Board of Directors as part of their annual retainer for serving on the Board. Based upon the closing price of $19.08 on June 12, 2013, the Company recorded compensation expense of $60,000 associated with the stock issuance for the year ended December 31, 2013. The Company recorded compensation expense of $60,000 in 2012 for a similar award.

Prior to January 1, 2012, it had been the Company's practice to allow executive officers to take a portion of their earned bonuses in the form of the Company's common stock. The value of the stock received by executive officers in lieu of cash bonuses, measured at the closing price of the stock on the date of grant was $55,000 for the year ended December 31, 2011.

The Company grants RSUs to its executive officers. The stock unit awards are subject to various time-based vesting requirements, and certain portions of these awards are subject to performance criteria of the Company. Compensation expense on these awards is recorded based on the fair value of the award at the date of grant, which is equal to the Company's closing stock price, and is charged to expense ratably during the service period. No compensation expense is taken on awards that do not become vested, and the amount of compensation expense recorded is adjusted based on management's determination of the probability that these awards will become vested. The following table summarizes information about stock unit award activity during the year ended December 31, 2013:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2012	**108,866**	**$ 8.77**
Awarded	10,600	19.97
Shares distributed	(61,635)	6.67
Forfeited/Cancelled	(6,931)	13.23
Outstanding at December 31, 2013	**50,900**	**$ 11.94**

The Company recorded approximately $250,000, $368,000 and $464,000 in compensation expense related to these RSUs during the years ended December 31, 2013, 2012 and 2011, respectively.

At the Company's discretion, RSU holders are given the option to net-share settle to cover the required minimum withholding tax, and the remaining amount is converted into the equivalent number of common shares. During the year ended December 31, 2013, 22,089 shares were redeemed for this purpose at an average market price of $19.29. During the years ended December 31, 2012 and 2011, 25,684 and 30,920 shares were redeemed for this purpose at an average market price of $16.10 and $18.19, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2013, vest (in thousands):

	Options	Common Stock	Restricted Stock Units	Total
2014	$ 171	—	$ 159	$ 330
2015	140	—	102	242
2016	127	—	53	180
2017	43	—	8	51
Total	**$ 481**	**$ —**	**$ 322**	**$ 803**

Tax benefits totaling approximately $818,000, $831,000 and $700,000 were recognized as additional paid-in capital during the years ended December 31, 2013, 2012 and 2011, respectively, since the Company's tax deductions exceeded the share-based compensation charge recognized for stock options exercised and RSUs vested.

(13) Preferred Stock

On March 18, 2009, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock, par value $0.01 per share on March 20, 2009, to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share (the "Preferred Share"), of the Company, at a price of $25.00 per one one-thousandth of a Preferred Share subject to adjustment and the terms of the Rights Agreement. The rights expire on March 19, 2019.

(14) Supplemental Retirement Benefits

The Company provides discretionary supplemental retirement benefits for certain retired officers, which will provide an annual benefit to these individuals for various terms following separation from employment. The Company recorded an expense of approximately $17,000, $32,000 and $6,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The present value of the supplemental retirement obligation has been calculated using an 8.5% discount rate, and is included in retirement and other liabilities. Total projected future cash payments for the years ending December 31, 2014 through 2018, are approximately $46,000, $25,000, $25,000, $25,000 and $25,000, respectively, and approximately $25,000 thereafter.

(15) Commitments and Contingencies

(a) ***Leases*** – The Company has operating leases for certain facilities that expire through 2018. Certain of the leases contain escalation clauses that require payments of additional rent, as well as increases in related operating costs.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2013, are as follows (in thousands):

Years Ending December 31	Operating Leases
2014	$ 1,686
2015	1,353
2016	1,341
2017	921
2018	91
Total minimum lease payments	**$ 5,392**

Rent expense amounted to approximately $2.0 million, $2.4 million and $2.3 million in 2013, 2012 and 2011, respectively.

(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 $800,000, $760,000 and $755,000 in 2013, 2012 and 2011, 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 $150,000 per insured person, along with an aggregate stop loss determined by the number of participants.

The Company has an Executive, Non-qualified "Excess" Plan ("the Plan"), which is a deferred compensation plan available to certain executives. The Plan permits participants to defer receipt of part of their current compensation to a later date as part of their personal retirement or financial planning. Participants have an unsecured contractual commitment from the Company to pay amounts due under the Plan. There is currently no security mechanism to ensure that the Company will pay these obligations in the future.

The compensation withheld from Plan participants, together with gains or losses determined by the participants' deferral elections is reflected as a deferred compensation obligation to participants, and is classified within retirement and other liabilities in the accompanying balance sheets. At December 31, 2013 and 2012, the balance of the deferred compensation liability totaled approximately $1.7 million and $1.4 million, respectively. The related assets, which are held in the form of a Company-owned, variable life insurance policy that names the Company as the beneficiary, are reported within other assets in the accompanying balance sheets, and are accounted for based on the underlying cash surrender values of the policies, and totaled approximately $1.8 million and $1.4 million as of December 31, 2013 and 2012, respectively.

(17) Fair Value of Financial Instruments

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

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

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

Level 3 – Valued based on management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company has no assets and liabilities that are measured at fair value on a recurring basis.

(18) Acquisitions

On December 31, 2012, the Company acquired substantially all of the assets of Packaging Alternatives Corporation ("PAC"), a Costa Mesa, California-based foam fabricator, for $5.7 million. PAC specialized in the fabrication of technical urethane foams primarily for the medical industry. This acquisition brought to the Company further access and expertise in fabricating technical urethane foams, a more significant presence on the west coast and a seasoned management team. The Company has leased the former PAC facility for a period of two years through December 31, 2014.

The following table summarizes the consideration paid and the acquisition date fair value of the assets acquired and liabilities assumed relating to the transaction (in thousands):

PAC Acquisition		**December 31, 2012**
Consideration:		
Cash	$	4,400
Purchase holdback		600
Contingent note payable, at present value		692
Fair value of total consideration transferred	**$**	**5,692**
Acquisition costs (professional fees) included in SG&A	**$**	**57**
Recognized amounts of identifiable assets acquired:		
Cash	$	804
Accounts receivable		1,375
Inventory		737
Other assets		54
Fixed assets		793
Non-compete		312
Customer list		1,277
Goodwill		841
Total identifiable net assets		**6,193**
Accounts payable		(312)
Accrued Expenses		(189)
Net assets acquired	**$**	**5,692**

Due to a refinement of certain estimates made in the initial purchase price allocation, the Fixed assets, Customer list and Goodwill amounts noted above, were adjusted by approximately ($24,000), ($260,000) and $284,000, respectively, during the year ended December 31, 2013.

With respect to the acquisition of selected assets of PAC, the Company acquired gross accounts receivable of $1,405,000, of which it deemed $30,000 to be uncollectible. It therefore recorded the accounts receivable at its fair market value of $1,375,000. With respect to the non-compete and customer list intangible assets acquired from PAC, the weighted average amortization period is five years. No residual balance is anticipated for any of the intangible assets.

Consideration for the net assets acquired includes a note payable to the Sellers in the amount of $800,000. The note is to be paid two years from the acquisition date, contingent upon the Company's ability to retain PAC's largest customer through this date. The note has been discounted to reflect imputed interest at 2% and a probability of payment of 95% and 90% for 2013 and 2012, respectively.

The goodwill recorded of $841,000 will be reflected as goodwill in the Company's Component Products segment. This amount approximates the amount of goodwill the Company expects to deduct for tax purposes. The goodwill reflects the excess of consideration to be paid over the fair value of the net assets acquired, and represents the value of the workforce as well as synergies expected to be realized.

The Consolidated Statement of Operations for the year ended December 31, 2013 includes the following operating results for PAC (in thousands):

		Year Ended December 31, 2013
Sales	$	10,253
Operating Income		438

The following table contains the unaudited pro forma condensed consolidated statements of operations for the years ended December 31, 2012 and 2011, as if the PAC acquisition had occurred at the beginning of 2011 (in thousands):

	Years Ended December 31			
		2012 Proforma (Unaudited)		2011 Proforma (Unaudited)
Sales	$	141,274	$	137,617
Net Income		11,559		10,948
Earnings per share:				
Basic	$	1.73	$	1.69
Diluted		1.64		1.56

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

(19) Segment Data

The Company is organized based on the nature of the products and services that it offers. Under this structure, the Company produces products and our chief operating decision maker analyzes the Company within two distinct segments: Component Products and Packaging. 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 segment, the Company primarily uses cross-linked polyethylene foam to provide customers in the automotive, athletic, leisure, and health and beauty industries with engineered products for numerous purposes.

The accounting policies of the segments are the same as those described in Note 1. Interest expense has been allocated based on operating results for 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 consolidated amounts contained in the audited financial statements. Revenues from customers outside of the United States are not material.

Sales to the top customer in the Company's Component Products segment comprised 5.2%, 5.7% and 10.9% of that segment's total sales and 3.5%, 3.8% and 7.2% of the Company's total sales for the years ended December 31, 2013, 2012 and 2011, respectively. Sales to the top customer in the Company's Packaging segment comprised 10.4%, 8.8% and 6.9% of that segment's total sales and 3.4%, 2.9% and 2.3% of the Company's total sales for the years ended December 31, 2013, 2012 and 2011, respectively.

The results for the Packaging segment include the operations of United Development Company Limited for the year ended 2011.

The Company presents cash and cash equivalents as unallocated assets.

Financial statement information by reportable segment is as follows (in thousands):

2013	Component Products	Packaging	Unallocated Assets	Total
Sales	$ 93,188	$ 46,035	$ —	$ 139,223
Operating income	11,760	5,638	—	17,398
Total assets	30,001	37,716	37,303	105,020
Depreciation/Amortization	1,783	2,301	—	4,084
Capital expenditures	2,798	3,032	—	5,830
Interest expense, net	91	114	—	205
Goodwill	5,304	2,018	—	7,322

2012	Component Products	Packaging	Unallocated Assets	Total
Sales	$ 88,171	$ 42,791	$ —	$ 130,962
Operating income	13,586	3,080	—	16,666
Total assets	34,502	30,635	33,480	98,617
Depreciation/Amortization	1,348	1,580	—	2,928
Capital expenditures	2,511	9,483	—	11,994
Interest expense, net	40	50	—	90
Goodwill	5,021	2,018	—	7,039

2011	Component Products	Packaging	Unallocated Assets	Total
Sales	$ 84,652	$ 42,592	$ —	$ 127,244
Operating income	13,036	2,680	—	15,716
Total assets	27,169	22,703	29,849	79,721
Depreciation/Amortization	1,544	1,237	—	2,781
Capital expenditures	1,029	2,712	—	3,741
Interest expense, net	15	12	—	27
Goodwill	4,463	2,018	—	6,481

(20) Building Sale

On January 13, 2011, United Development Company Limited ("UDT") sold its Alabama facility (Packaging segment) for $1,250,000. The net book value of the asset at December 31, 2010, was approximately $384,000. Selling expenses of approximately $38,000 were incurred.

(21) Quarterly Financial Information (unaudited)

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

Year Ended December 31, 2013	Q1	Q2	Q3	Q4
Net sales	$ 33,697	$ 35,832	$ 34,700	$ 34,993
Gross profit	8,902	10,719	10,162	10,865
Net income attributable to UFP Technologies, Inc.	2,030	2,982	2,887	3,377
Basic net income per share	0.30	0.44	0.42	0.49
Diluted net income per share	0.29	0.42	0.41	0.47

Year Ended December 31, 2012	Q1	Q2	Q3	Q4
Net sales	$ 31,952	$ 33,673	$ 31,967	$ 33,370
Gross profit	9,201	9,691	9,226	10,067
Net income attributable to UFP Technologies, Inc.	2,349	2,747	2,596	3,203
Basic net income per share	0.36	0.41	0.39	0.48
Diluted net income per share	0.33	0.39	0.37	0.45

(22) Plant Consolidation

On September 18, 2012, the Company committed to move forward with a plan to close its Ventura (California) facility and consolidate operations into its Rancho Dominguez (California) and El Paso (Texas) facilities. The Company incurred restructuring charges of approximately $400,000 in one-time, pre-tax expenses, most of which was paid in the fourth quarter of 2012, and committed to invest approximately $150,000 in building improvements.

(23) Subsequent Events

Plant Consolidation

On January 7, 2014, the Company committed to move forward with a plan to cease operations at its Glendale Heights, Illinois plant and consolidate operations into its Grand Rapids, Michigan facility. The Company's decision was in response to a pending significant increase in lease cost, declining sales at the Illinois facility, and significant anticipated savings as a result of the consolidation.

The Company expects to incur approximately $1,150,000 in one-time expenses in connection with the consolidation, and to invest approximately $300,000 in building improvements in Grand Rapids. Included in the $1,150,000 amount above are approximately $350,000 of expenses the Company expects to incur relating to employee severance payments, approximately $550,000 in moving expenses and expenses associated with vacating the Glendale Heights building and approximately $250,000 in expenses in moving equipment within the Grand Rapids location. Total cash charges are estimated at $1,450,000. The Company expects annual cost savings of approximately $750,000 as a result of the plant consolidation.

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 about the Company's prospects, anticipated advantages the Company expects to realize from its acquisition strategies and its plant consolidation efforts, including reduced costs and expected efficiencies, the Company's participation and growth in multiple markets, the Company's business opportunities, the Company's growth potential and strategies for growth, the Company's development of new, competitive technologies and products, anticipated advantages the Company expects to realize from its investments and capital expenditures, anticipated benefits associated with the implementation of the Company's new enterprise resource planning systems, and any indication that the Company may be able to sustain or increase its sales and earnings, or its sales and earnings growth rates. Investors are cautioned that such forward-looking statements involve risks and uncertainties, including without limitation, economic conditions that affect sales of the products of the Company's customers, the ability of the Company to identify suitable acquisition candidates and successfully, efficiently execute acquisition transactions and integrate such acquisition candidates, actions by the Company's competitors and the ability of the Company to respond to such actions, the ability of the Company to obtain new customers, risks and uncertainties associated with plant consolidation and expansion activities, the ability of the Company to maintain its relationships with key suppliers, the ability of the Company to fulfill its obligations on long-term contracts and to retain current customers, the public's perception of environmental issues related to the Company's business, the Company's ability to adapt to changing market needs, the ability of the Company to retain key personnel, the ability of the Company to successfully implement and integrate the Company's new enterprise resource planning systems, the implementation of new production equipment in a timely, cost-effective manner and other factors. Accordingly, actual results may differ materially from those projected in the forward-looking statements as a result of changes in general economic conditions, interest rates, and the assumptions used in making such forward-looking statements. Readers are referred to the documents filed by the Company with the SEC, specifically the last reports on Form 10-K and 10-Q. The forward-looking statements contained herein speak only of the Company's expectations as of the date of this report. 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.

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 11, 2014, at the Black Swan Country Club, 258 Andover Street, Georgetown, MA 01833, USA.

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 USA

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

FORM 10-K REPORT
A copy of the Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Company, or on the Company's website at www.ufpt.com/investors/filings.html.

CORPORATE HEADQUARTERS
UFP Technologies, Inc.
172 East Main Street
Georgetown, MA 01833 USA
(978) 352-2200 phone
(978) 352-5616 fax

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS
Grant Thornton LLP
125 High Street, 21st Floor
Boston, MA 02110

CORPORATE COUNSELS
Lynch Brewer Hoffman & Fink, LLP
75 Federal Street, 7th Floor
Boston, MA 02110

Brown Rudnick LLP
1 Financial Center
Boston, MA 02111

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

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/investors/filings.html.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

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

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

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

Marc Kozin **d**
Senior Advisor
LEK Consulting, LLC

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

Thomas Oberdorf **d**
Chief Financial Officer
SIRVA, Inc.

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

Lucia Luce Quinn **d**
Chief People Officer
Forrester Research, Inc.

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

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

W. David Smith **o**
Vice President
Operations

David K. Stevenson **d**
Director, Trustee,
and Consultant

d Directors **o Officers**

OPERATING PRINCIPLES

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

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

Employees
We are dedicated to providing a positive, challenging, rewarding work environment for all of 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

172 East Main Street, Georgetown, MA 01833 | 800 372 3172 | ufpt.com