LEANER

FASTER

SMARTER

STRONGER

UFP TECHNOLOGIES

2015 ANNUAL REPORT

2015

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, electronics, consumer and industrial 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.

Learn more about us at www.ufpt.com.

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After this three-year series of investments, we are a leaner, faster, smarter and stronger UFP, poised to capture more business across our target markets.

DEAR FELLOW SHAREHOLDER,

For UFP Technologies, 2015 was an exciting year of major accomplishment. Three years ago, we set in motion an aggressive plan to reshape the Company, strengthen our operating platform, and improve our long-term growth prospects. Our strategy encompassed virtually every aspect of the Company – from facilities and equipment to talent and technology.

Today, almost all of these initiatives are behind us; the last is scheduled to be completed in mid-2016. I am proud to report that we executed each of them on time and on budget – and paid for them in cash, funding tens of millions of dollars in improvements without adding new debt to our balance sheet. As a result of these initiatives, I believe your Company is better positioned to succeed than at any point in its history.

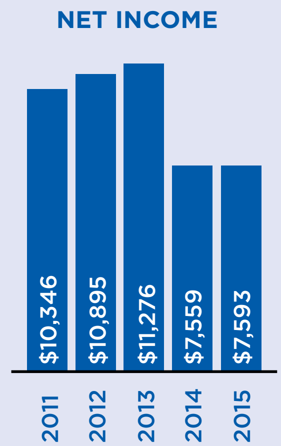
AFTER THREE YEARS OF HARD WORK TO RETOOL AND RESTRUCTURE, WE ARE POISED TO TAKE UFP TO THE NEXT LEVEL

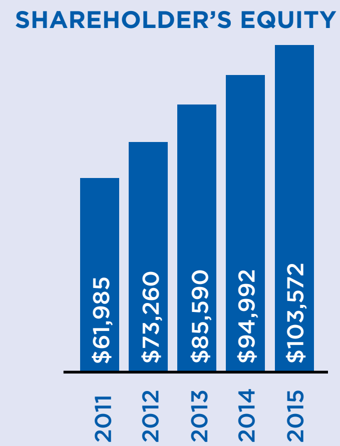
Here are some of the key moves we made to strengthen our business and better serve customers.

- In the Midwest, we consolidated our Illinois operation into our Grand Rapids, Michigan, facility.
- In California, we consolidated our Costa Mesa operation into our Rancho Dominguez plant.
- In El Paso, Texas, we purchased a large facility, upgraded our foam fabricating operation, and invested $6.5 million in new state-of-the-art molded fiber equipment.
- In Massachusetts, we are nearly done consolidating our Northeast operations into our newly purchased Newburyport headquarters, with most personnel and equipment in place at the new facility.
- We implemented our Enterprise Resource Planning (ERP) system across all UFP plants and deployed a new Customer Relationship Management system as well.
- We added substantial production capabilities and quality systems for our largest market, medical/biotech.
- We recruited top talent across the organization, including senior leadership in areas like engineering, sales and quality.

A MORE EFFICIENT AND CONNECTED COMPANY, FOCUSED ON GROWTH

Why is our new national plant footprint so important? Over the past decade, we acquired numerous companies that brought critical new capabilities to UFP. But this also left us with multiple small plants and discrete teams scattered across the





country. As leases have expired, we've consolidated our network. Today, we have fewer, larger, better-equipped facilities in strategic locations, and we are already seeing productivity gains and cost savings.

Our ERP system upgrade is also bringing key benefits. It's helping us to better analyze and manage our business and, more importantly, to be more responsive to our customers. I want to thank our ERP implementation team for their tireless efforts to minimize customer disruption, mitigate risk, and meet some very tight deadlines.

With these initiatives behind us, we can once again focus 100% on growth. It's all about increasing our value to customers and delivering more of the innovations they need to succeed.

STRONG SALES, BRIGHT PROSPECTS IN KEY MARKETS

For example, in the past year we expanded our medical capabilities in areas like orthopedic bracing and bone growth stimulation. Today, medical/biotech is by far our largest and fastest-growing market, with double-digit sales growth in 2015. In this market, we have secured or are finalizing several new long-term contracts, including a pending five-year deal worth an estimated $45 million that will more than double annual revenue with a key customer.

The medical/biotech market is an ideal fit for several reasons. First, these customers require the highest level of engineering and materials expertise, which is our greatest strength. Second, once a medical solution earns FDA approval, it's very difficult to change it. So when a UFP component is designed in, it's almost always a long-term program with multiyear production runs.

This focus on more technically advanced, longer-lasting programs is central to our growth strategy across all markets. Beyond medical/biotech, we are seeing exciting opportunities in the areospace and defense market; automotive sales were also up in 2015. Overall, for any customer that requires superior engineering and absolute quality, we believe we are in a stronger position than ever to compete and win.

THE FUTURE IS NOW

As UFP begins this new chapter, our initiatives are paying off in new contracts, new project approvals, and a growing pipeline of new opportunities. We are also revitalizing our acquisition search efforts. Although we did end one recent negotiation in its final stages due to concerns raised by our due diligence process, we will continue to pursue opportunities that enhance our value to customers and shareholders.

We've reshaped the Company to accelerate growth. Now it's time to execute. After this three-year series of investments, we believe we are a leaner, faster, smarter and stronger UFP, poised to capture more business across our target markets. I am very excited about where we are and where we're going, and I thank you for your support.

Sincerely,

R. Jeffrey Bailly

R. Jeffrey Bailly
Chairman, Chief Executive Officer, and President

LEANER

HOW A MORE EFFICIENT PLANT NETWORK BENEFITS OUR BUSINESS AND OUR CUSTOMERS

By the middle of 2016, our three-year plan to consolidate our Midwest, West, and Northeast operations will be essentially complete. This footprint optimization strategy involved significant investments of time and resources across the organization. But it will provide a much stronger platform from which to grow. We are already beginning to realize synergies from our completed consolidations – greater efficiency, reduced operating costs, better communication, smoother collaboration, and more.

This is no surprise; our largest factories have performed at a higher level than our smaller ones. In these major facilities, we can assemble a critical mass of engineering, manufacturing and quality resources, so ideas are shared and acted on more quickly. And key functions are centralized, so resources can be directed more efficiently toward the best growth opportunities, and customer problems solved more easily.

With fewer, larger plants in strategic locations, we are working more efficiently and delivering greater value to customers.

With our ERP system live across all plants, we've improved the flow of information to respond more rapidly to customer needs.

FASTER

OUR ERP SYSTEM UPGRADE HELPS US IDENTIFY AND RESPOND TO OPPORTUNITIES MORE QUICKLY

Like the plant consolidations, our Enterprise Resource Planning system upgrade took several years to complete, but we believe the benefits will be substantial and long lasting. The new system is providing insights to help us make more informed decisions on all aspects of the business, from resource allocation to market segment analysis. It's also helping us to break down the silos between different plants and employee groups, and share knowledge and best practices more easily.

This will improve our ability to respond quickly to customer requests, and allocate the right problem-solving resources. With one centralized database accessible to managers across the organization, we can quickly find the information we need (such as inventory and equipment availability) to create a project plan and get to work. Overall, it's a powerful decision-making resource that is helping to increase the velocity of our business, and unlock more opportunities that fit our unique skills.

Superior engineering is our greatest asset. For sophisticated applications, our problem-solving skills offer powerful benefits.

SMARTER

AS CUSTOMER NEEDS GROW MORE COMPLEX, WE CONTINUE TO EXPAND OUR INDUSTRY-LEADING TECHNICAL TEAM

How do you make a fantastic engineering team even better? Share best practices. Add talent. Provide the support they need to succeed. And turn them loose to do just that. In our business, we see a constant stream of new materials, new processes, and new applications that require ever-greater technical sophistication. For us, these all translate into new ways to grow and new opportunities to improve our efficiency. So we continue to make superior engineering an absolute priority.

For years, we have been shifting our business toward more technically advanced programs, especially in markets like medical/biotech. While these programs are more challenging, they also tend to be longer lasting, more profitable, and better showcases for our unique skills. We will continue to build our engineering resources to meet these increasingly complex challenges. In fact, the tougher the problem, the more our customers need us. That's a great position to be in.

STRONGER

WITH A REVITALIZED PLATFORM AND SOLID BALANCE SHEET, OUR FUTURE LOOKS BRIGHTER THAN EVER

Our investments in facilities, technologies, equipment and personnel have combined to create a more competitive, more energized UFP. With the execution risks largely behind us, we can once again focus all our efforts on growing the business. Our pipeline of new opportunities is robust, and we are converting more of them into orders. The outlook for our largest market, medical/biotech, remains especially strong.

We are also returning our attention to acquisitions. Over the years, we have become adept at identifying the right acquisition candidates, integrating them into our culture, and bringing new capabilities to our customers. As we find candidates that meet our criteria, our financial strength will allow us to act quickly. In short, the growth engine is tuned and ready. As we begin this exciting new chapter in our history, we can't wait to see what the coming years will bring.

We've reshaped the company to improve our competitive position and serve customers better. Now we're 100% focused on growth.

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, 2015, 2014 and 2013, and the selected balance sheet data as of December 31, 2015 and 2014, 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, 2012 and 2011, and the balance sheet data at December 31, 2012 and 2011 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	**2015**	**2014**	**2013**	**2012**	**2011**
Net sales	$ 138,850	$ 139,307	$ 139,223	$ 130,962	$ 127,244
Gross profit	37,454	36,880	41,014	38,319	36,245
Operating income	11,714	11,561	17,398	16,666	15,716
Net income	7,593	7,559	11,276	10,895	10,346
Diluted earnings per share	1.05	1.05	1.59	1.55	1.48
Weighted average number of diluted shares outstanding	7,219	7,175	7,105	7,028	6,999

	As of December 31 (in thousands)				
Consolidated balance sheet data	**2015**	**2014**	**2013**	**2012**	**2011**
Working capital	$52,620	$ 55,658	$ 56,398	$ 51,263	$ 48,575
Total assets	119,950	112,548	104,908	98,617	79,721
Short-term debt obligations	1,011	993	976	1,550	581
Long-term debt, excluding current portion	859	1,873	2,867	8,314	5,639
Total liabilities	16,378	17,556	19,318	25,357	17,736
Stockholders' equity	103,572	94,992	85,590	73,260	61,985

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, 2014 to December 31, 2015:

Fiscal Year Ended December 31, 2014	High	Low
First Quarter	$ 26.60	$ 23.27
Second Quarter	27.43	23.12
Third Quarter	25.92	21.05
Fourth Quarter	25.45	20.55

Fiscal Year Ended December 31, 2015	High	Low
First Quarter	$ 24.83	$ 19.89
Second Quarter	23.13	19.45
Third Quarter	23.25	17.51
Fourth Quarter	25.50	21.23

NUMBER OF STOCKHOLDERS

As of March 2, 2016, there were 73 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 2014 or 2015. 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.

ISSUER PURCHASES OF EQUITY SECURITIES

On June 16, 2015, the Company issued a press release announcing that its Board of Directors authorized the repurchase of up to $10.0 million of the Company's outstanding common stock. There was no share repurchase activity for the Company's fourth quarter of 2015. During the year ended December 31, 2015, the Company repurchased 29,559 shares of common stock at a cost of approximately $587,000. At December 31, 2015, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

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

OVERVIEW

UFP Technologies is an innovative designer and custom converter of foams, plastics, composites and natural fiber materials, providing solutions to customers primarily within the medical, automotive, consumer, electronics, industrial and aerospace and defense markets. The Company consists of a single operating and reportable segment.

The Company is near completion of multi-year initiatives to optimize its footprint, implement new enterprise resource planning software and expend its team of engineers. As part of this, the Company expects to incur a total of approximately $2.1 million in restructuring costs associated with consolidating operations in the Northeast, of which approximately $1.7 million has been incurred through December 31, 2015. As a result of these consolidations, it anticipates annual cost savings, primarily in reduced real estate and labor costs, of approximately $1 million per year.

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

RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, the percentage of revenues represented by the items as shown in the Company's consolidated statements of operations:

	2015	2014	2013
Net sales	100.0%	100.0%	100.0%
Cost of sales	73.0%	73.5%	70.5%
Gross profit	**27.0%**	**26.5%**	**29.5%**
Selling, general, and administrative expenses	17.3%	17.1%	17.0%
Restructuring costs	1.3%	1.1%	0.0%
(Gain) loss on sale of property, plant and equipment	0.0%	0.0%	0.0%
Operating income	**8.4%**	**8.3%**	**12.5%**
Total other (income) expenses, net	-0.1%	-0.1%	0.2%
Income before taxes	**8.5%**	**8.4%**	**12.3%**
Income tax expense	3.0%	3.0%	4.2%
Net income from consolidated operations	**5.5%**	**5.4%**	**8.1%**

2015 COMPARED TO 2014

Sales

Net sales decreased 0.3% to $138.9 million for the year ended December 31, 2015, from net sales of $139.3 million in 2014, primarily due to decreases in sales to customers in the electronics, industrial and aerospace and defense markets of approximately 16.5%, 16.5% and 13.2%, respectively, primarily offset by an increase in sales to customers in the medical market of approximately 14.6%. The decline in sales to customers in the electronics market was largely due to the loss of a packaging contract by one of the Company's distributor customers. The decline in sales to customers in the aerospace and defense market was primarily due to a large, one-time order from a single customer in this market in 2014. The decline in sales to customers in the industrial market is comprised of reductions in sales to many smaller accounts. The increase in sales to customers in the medical market reflects the Company's strategy of focusing resources in the area as well as the overall growth of our customers' products.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") increased to 27.0% for the year ended December 31, 2015, from 26.5% in 2014. As a percentage of sales, material and direct labor costs collectively increased approximately 0.2%, while overhead decreased approximately 0.7%. The increase in material and direct labor costs was primarily the result of a slight increase in overall labor costs. The decrease in overhead was primarily due to decreased employee health care costs of approximately $900,000 due to a higher than typical frequency of large claims in 2014 and decreased rent costs of approximately $600,000 due to recent plant consolidations, offset by higher depreciation costs of $450,000 due largely to a full year of depreciation for our Texas building and new molded fiber equipment, as well as depreciation for our new building in Newburyport.

Selling, General and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") increased 0.7% to $24.0 million for the year ended December 31, 2015 from $23.8 million in 2014. The slight increase in SG&A for the year ended December 31, 2015, is primarily due to higher technology-related costs of approximately $300,000 and higher travel costs of approximately $100,000, primarily due to the Company's ERP implementation, partially offset by decreased employee health care costs of approximately $250,000 due largely to a higher than typical frequency of large claims in 2014.

Restructuring Costs

On March 18, 2015, the Company committed to move forward with a plan to cease operations at its Raritan, New Jersey, plant and consolidate operations into its Newburyport, Massachusetts, facility and other UFP facilities. The Company's decision was in response to a continued decline in business at the Raritan facility and the recent purchase of the 137,000-square-foot facility in Newburyport. The activities related to this consolidation were substantially complete at December 31, 2015.

The Company also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts facilities and plans to relocate certain operations in its Georgetown, Massachusetts facility to Newburyport. The Haverhill and Byfield relocations were complete at December 31, 2015 and the Georgetown relocation is expected to be complete by June 30, 2016.

The Company expects to incur approximately $2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount are approximately $180,000 relating to employee severance payments and relocation costs, approximately $1.5 million in moving expenses and expenses associated with vacating the Raritan, Haverhill and Byfield properties, and approximately $360,000 in lease termination costs. Total cash charges are estimated at $2.0 million. The Company expects annual cost savings of approximately $1.0 million as a result of these consolidations. The actual costs incurred through December 31, 2015 are included in the table below.

On July 16, 2014, the Company committed to move forward with a plan to cease operations at its Costa Mesa, California, plant and consolidate operations into its Rancho Dominguez, California, facility and other UFP facilities. The Company's decision was in response to the December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. The California consolidation is complete and the actual costs incurred are included in the table below.

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 consolidation into the Michigan facility is complete and the actual costs incurred are included in the table below.

The Company has recorded the following restructuring costs associated with the consolidations discussed above for the fiscal years ended December 31, 2015 and 2014 (in thousands):

	2015			2014		
Restructuring Costs	**Massachusetts**	**California**	**Total**	**Michigan**	**California**	**Total**
Employee severance	$ 178	$ 18	$ 196	$ 237	$ 10	$ 247
Relocation	1,138	66	1,204	356	501	857
Lease termination	356	-	356	-	-	-
Workforce training	-	-	-	373	-	373
Plant infrastructure	-	-	-	79	-	79
Total restructuring costs	**$ 1,672**	**$ 84**	**$ 1,756**	**$ 1,045**	**$ 511**	**$ 1,556**

The 2015 costs were reclassified in the Consolidated Statement of Operations as “Restructuring Costs” as follows: $1,669,000 from Cost of Sales, $36,000 from Selling, General and Administrative expenses and $51,000 from Gain on sales of property, plant and equipment. The 2014 costs were reclassified in the Consolidated Statement of Operations as “Restructuring Costs” as follows: $1,385,000 from Cost of Sales, $82,000 from Selling, General and Administrative expenses and $89,000 from Gain on sales of property, plant and equipment.

Interest Income and Expense

The Company had net interest income of approximately $27,000 for the year ended December 31, 2015, compared to net interest expense of approximately $108,000 for the year ended December 31, 2014. The increase in net interest income is due primarily to an increase in interest earned on money market accounts and certificates of deposit along with a nonrecurring interest charge in 2014 to adjust a contingent note payable to fair value.

Income Taxes

The Company recorded income tax expense as a percentage of income before income tax expense, of 35.3% and 35.8% for the years ended December 31, 2015 and 2014, respectively. The decrease in the effective tax rate for the year ended December 31, 2015 is primarily attributable to a higher anticipated Domestic Production Deduction on the Company’s 2015 federal tax return. 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, 2015. 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.

2014 COMPARED TO 2013

Sales

Net sales increased 0.1% to $139.3 million for the year ended December 31, 2014, from net sales of $139.2 million in 2013, primarily due to increases in sales in the aerospace and defense and medical markets of approximately 10% and 2%, respectively, partially offset by sales decline in the automotive market of approximately 6%. The increase in sales to the aerospace and defense market was largely due to an increase in sales of approximately $2.1 million for a low-margin contract manufacturing program. Absent this increase, sales to the aerospace and defense market declined approximately 6% due primarily to cuts in government spending. The decline in sales to the automotive market was primarily due to the phase-out of an interior trim program coupled with soft demand for parts for a specific model of car that had weak demand from consumers.

Gross Profit

Gross profit as a percentage of sales (“Gross Margin”) declined to 26.5% for the year ended December 31, 2014, from 29.5% in 2013. As a percentage of sales, material and direct labor costs collectively increased approximately 1.5% and overhead as a percentage of sales increased approximately 1.5% or approximately $2.0 million in 2014. The increase in material and direct labor costs was primarily the result of manufacturing inefficiencies incurred as a result of plant moves in the Midwest, California and Texas as well as an increase in sales for a low-margin contract manufacturing military program. The increase in overhead was primarily due to increased employee health care costs of approximately $600,000 due to a higher than typical frequency of large claims, increased compensation and benefits of approximately $450,000 due to normal inflationary increases as well as higher overtime incurred as a result of the plant moves, increased plant and equipment maintenance costs of approximately $290,000 due to the various plant moves and higher depreciation of approximately $220,000 due largely to new molded fiber equipment.

Selling, General and Administrative Expenses

Selling, General, and Administrative Expenses (“SG&A”) increased 1.0% to $23.8 million for the year ended December 31, 2014 from $23.6 million in 2013. The increase in SG&A for the year ended December 31, 2014, is primarily due to higher depreciation costs of $160,000, largely associated with the Company’s new ERP software system, increased bad debt expense of approximately $140,000 due largely to a one-time write-off and increased employee health care costs of approximately $184,000 due largely to a higher than typical frequency of large claims, partially offset by lower sales commissions of approximately $100,000 due to soft sales compared to the Company’s budgeted sales, lower advertising costs incurred of approximately $70,000 and lower intangibles amortization of approximately $85,000.

Restructuring Costs

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 consolidation into the Michigan facility is complete and the actual costs incurred are included in the table below.

On July 16, 2014, the Company committed to move forward with a plan to cease operations at its Costa Mesa, California, plant and consolidate operations into its Rancho Dominguez, California, facility and other UFP facilities. The Company’s decision was in response to the December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. This consolidation is complete and the actual costs incurred through December 31, 2014 are included in the table below.

The Company recorded the following restructuring costs associated with the plant consolidations discussed above for the year ended December 31, 2014 (in thousands):

Restructuring Costs	Michigan	California	Total
Employee severance payments	$ 237	$ 10	$ 247
Relocation costs	356	501	857
Workforce training costs	373	-	373
Plant infrastructure costs	79	-	79
Total restructuring costs	**$ 1,045**	**$ 511**	**$ 1,556**

These costs were reclassified in the 2014 Consolidated Statement of Operations as "Restructuring Costs" as follows: $1,385,000 from Cost of Sales, $82,000 from Selling, General and Administrative expenses and $89,000 from Gain on sales of property, plant and equipment. The Company also incurred approximately $373,000 and $38,000, in related capital improvements at its Michigan and California facilities, respectively, for the year ended December 31, 2014

Interest Expense

Interest expense net of interest income decreased to approximately $108,000 for the year ended December 31, 2014 from net interest expense of approximately $205,000 in 2013. The decrease in interest expense is primarily due to a lower average debt balance as a result of the Company's repayment of term loans in conjunction with the execution of a new revolving credit facility in the fourth quarter of 2013.

Income Taxes

The Company recorded income tax expense as a percentage of income before income tax expense, of 35.8% and 34.4% for the years ended December 31, 2014 and 2013, respectively. The increase in the effective tax rate for the year ended December 31, 2014 is primarily attributable to permanent differences measured against lower pre-tax income as well as additional reserves of approximately $150,000 for uncertain tax positions. 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, 2014. 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.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows

Net cash provided by operations for the year ended December 31, 2015 was approximately $13.1 million and was primarily a result of net income generated of approximately $7.6 million, depreciation and amortization of approximately $4.9 million, share-based compensation of approximately $1.1 million and a decrease in refundable income taxes of approximately $2.4 million. These cash inflows and adjustments to income were partially offset by an increase in accounts receivable of approximately $1.0 million due to the timing of customer payments in the ordinary course of business, an increase in inventory of approximately $1.3 million due to the timing of raw materials purchases and customer shipments and a decrease in accounts payable and accrued expenses of approximately $600,000 due to the timing of vendor payments in the ordinary course of business.

Net cash used in investing activities during the year ended December 31, 2015, was approximately $16.3 million of which approximately $11.5 million was the result of the purchase and renovation of our new corporate headquarters and manufacturing facility in Newburyport, MA and approximately $4.8 million was the result of other additions of technology, manufacturing machinery and equipment across the Company.

Net cash used in financing activities was approximately $1.1 million for the year ended December 31, 2015, representing cash used to service term debt of approximately $1.0 million, to repurchase shares of common stock of approximately $600,000 and to pay statutory withholding for stock options exercised and restricted stock units vested of approximately $200,000, partially offset by excess tax benefits on share-based compensation of approximately $350,000, and net proceeds received upon stock option exercises of approximately $350,000.

Outstanding and Available Debt

The Company maintains 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's $40 million credit facility matures on November 30, 2018.

As of December 31, 2015, the Company had no borrowings outstanding under the credit facility and the Company was in compliance with all covenants under the credit facility.

In 2012, the Company financed the purchase of two molded fiber machines through five-year term loans that mature in September 2017. The annual interest rate is fixed at 1.83% and the loans are secured by the related molded fiber machines. As of December 31, 2015, the outstanding balance of the term loan facility was approximately $1.9 million.

Future Liquidity
The Company requires cash to pay its operating expenses, purchase capital equipment, and to service its contractual obligations. The Company's principal sources of funds are its operations and its revolving credit facility. The Company generated cash of approximately $13.1 million in operations during the year ended December 31, 2015, and cannot guarantee that its operations will generate cash in future periods. The Company's longer-term liquidity is contingent upon future operating performance.

Throughout fiscal 2016, the Company plans to continue to add capacity to enhance operating efficiencies in its manufacturing plants. The Company may also further expand its Newburyport, Massachusetts manufacturing plant. The Company may consider additional acquisitions of companies, technologies, or products that are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash expected to be generated from operations and funds expected to be available to it through any necessary equipment financings and additional bank borrowings, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through the next twelve months.

Stock Repurchase Program
The Company accounts for treasury stock under the cost method, using the first-in, first out flow assumption, and includes treasury stock as a component of stockholders' equity. On June 16, 2015, the Company announced that its Board of Directors authorized the repurchase of up to $10.0 million of the Company's outstanding common stock. Under the program, the Company is authorized to repurchase shares through Rule 10b5-1 plans, open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. The stock repurchase program will end upon the earlier of the date on which the plan is terminated by the Board or when all authorized repurchases are completed. The timing and amount of stock repurchases, if any, will be determined based upon our evaluation of market conditions and other factors. The stock repurchase program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the program. During the year ended December 31, 2015, the Company repurchased 29,559 shares of common stock at a cost of approximately $587,000.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations at December 31, 2015 (in thousands):

	Payment Due By Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Equipment loans	$ 1,870	$ 1,011	$ 859	$ -	$ -
Operating leases	1,264	888	376	-	-
Debt interest	32	25	7	-	-
Supplemental retirement	100	25	50	25	-
Total	**$ 3,266**	**$ 1,949**	**$ 1,292**	**$ 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, 2015, it cannot guarantee that its operations will generate cash in future periods. Subject to the Risk Factors set forth in Part I, Item 1A of the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "10-K") and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset of the 10-K (and at the end 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 2015, 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 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 characteris-tics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company consists of a single reporting unit. We last performed "step 1" of the goodwill impairment test as of September 30, 2014. We utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

    - The reporting unit's 2015 estimated financials and five-year projections of financial results, which were based on our strategic plans and long-range forecasts. Sales growth rates represent estimates based on current and forecasted sales mix and market conditions. The profit margins were projected based on historical margins, projected sales mix, current expense structure and anticipated expense modifications.

    - The projected terminal value which reflects the total present value of projected cash flows beyond the last period in the DCF. This value reflects a growth rate for the reporting unit, which is approximately the same growth rate of expected inflation into perpetuity.

    - The discount rate determined using a Weighted Average Cost of Capital method ("WACC"), which considered market and industry data as well as Company-specific risk factors.

    - Selection of guideline public companies which are similar to each other and to the Company

  As of September 30, 2014, based on our calculations under the above noted approach, the fair value of the reporting unit exceeded its carrying value by approximately $69 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. If our actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

  The Company's annual impairment testing date is December 31. The Company performed a qualitative assessment ("step

0") as of December 31, 2015, and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company is not required to proceed to a "step 1" impairment assessment. Factors considered included the 2014 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

- **Accounts Receivable** The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially 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, 2015.

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

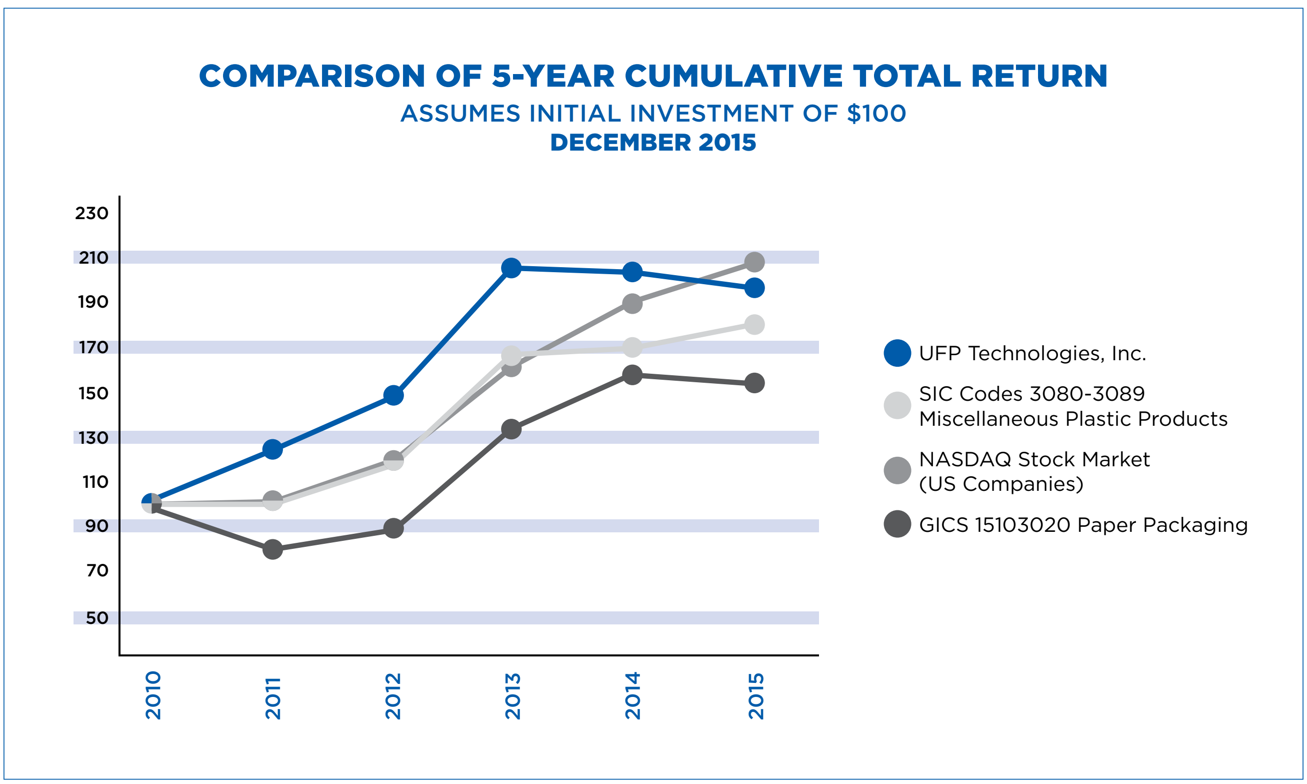
  The Company periodically reviews the realizability of its inventory for potential excess or obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2015.

- **Recent Accounting Pronouncements** Refer to Note 1, "Summary of Significant Accounting Policies," in the accompanying notes to the consolidated financial statements for a discussion of recent accounting pronouncements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of the Company's market risk includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Market risk represents the risk of changes in value of a financial instrument caused by fluctuations in interest rates, foreign exchange rates, and equity prices. At December 31, 2015, 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, 2015, 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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2016 expressed an unqualified opinion.

Grant Thornton LLP

GRANT THORNTON LLP
Boston, Massachusetts
March 11, 2016

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, 2015, based on criteria established in the 2013 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, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2015, and our report dated March 15, 2016 expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

GRANT THORNTON LLP
Boston, Massachusetts
March 11, 2016

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31	
ASSETS	**2015**	**2014**
Current assets:		
Cash and cash equivalents	$ 29,804	$ 34,052
Receivables, net	17,481	16,470
Inventories	14,202	12,893
Prepaid expenses	930	664
Refundable income taxes	1,186	3,192
Total current assets	**63,603**	**67,271**
Property, plant, and equipment	90,564	75,823
Less accumulated depreciation and amortization	(44,009)	(40,980)
Net property, plant, and equipment	46,555	34,843
Goodwill	7,322	7,322
Intangible assets, net	636	953
Other assets	1,834	2,159
Total assets	**$ 119,950**	**$ 112,548**

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,598	$ 5,398
Accrued expenses	5,374	5,222
Current installments of long-term debt	1,011	993
Total current liabilities	**10,983**	**11,613**
Long-term debt, excluding current installments	859	1,873
Deferred income taxes	2,883	2,446
Other liabilities	1,653	1,624
Total liabilities	**16,378**	**17,556**
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 1,000,000 shares, zero shares issued or outstanding	—	—
Common stock, $.01 par value. Authorized 20,000,000 shares, issued and outstanding 7,170,377 shares at December 31, 2015 and 7,068,815 shares at December 31, 2014	72	71
Additional paid-in capital	23,705	22,132
Retained earnings	80,382	72,789
Treasury stock at cost (29,559 shares shares at December 31, 2015 and zero shares at December 31, 2014)	(587)	—
Total stockholders' equity	**103,572**	**94,992**
Total liabilities and stockholders' equity	**$ 119,950**	**$ 112,548**

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Years Ended December 31		
	2015	**2014**	**2013**
Net sales	$ 138,850	$ 139,307	$ 139,223
Cost of sales	101,396	102,427	98,209
Gross profit	**37,454**	**36,880**	**41,014**
Selling, general, and administrative expenses	24,008	23,847	23,605
Restructuring costs	1,756	1,556	—
(Gain) loss on sales of property, plant, and equipment	(24)	(84)	11
Operating Income	**11,714**	**11,561**	**17,398**
Other expenses:			
Interest (income) expense, net	(27)	108	205
Other, net	—	(312)	—
Total other (income) expense	(27)	(204)	205
Income before income tax provision	**11,741**	**11,765**	**17,193**
Income tax expense	4,148	4,206	5,917
Net income from consolidated operations	**7,593**	**7,559**	**11,276**
Net income per share:			
Basic	$ 1.07	$ 1.08	$ 1.65
Diluted	$ 1.05	$ 1.05	$ 1.59
Weighted average common shares:			
Basic	7,115	7,028	6,824
Diluted	7,219	7,175	7,105

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2015, 2014 and 2013

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
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 units 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**
Share-based compensation	20	1	1,118	—	—	—	1,119
Exercise of stock options net of shares presented for exercise	148	1	335	—	—	—	336
Net share settlement of restricted stock units and stock option tax withholding	—	—	(831)	—	—	—	(831)
Excess tax benefits on share-based compensation	—	—	1,219	—	—	—	1,219
Net income	—	—	—	7,559	—	—	7,559
Balance at December 31, 2014	**7,069**	**$ 71**	**$ 22,132**	**$ 72,789**	**$ —**	**$ —**	**$ 94,992**
Share-based compensation	24	—	1,069	—	—	—	1,069
Exercise of stock options net of shares presented for exercise	77	1	357	—	—	—	358
Net share settlement of restricted stock units and stock option tax withholding	—	—	(209)	—	—	—	(209)
Excess tax benefits on share-based compensation	—	—	356	—	—	—	356
Repurchase of common stock	—	—	—	—	30	(587)	(587)
Net income	—	—	—	7,593	—	—	7,593
Balance at December 31, 2015	**7,170**	**$ 72**	**$ 23,705**	**$ 80,382**	**$ 30**	**$ (587)**	**$ 103,572**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Net income from consolidated operations	$ 7,593	$ 7,559	$ 11,276
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,846	4,376	4,084
Loss on sales of property, plant and equipment	27	5	11
Share-based compensation	1,069	1,119	924
Deferred income taxes	437	1,232	740
Excess tax benefits on share-based compensation	(356)	(1,219)	(818)
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables, net	(1, 011)	562	804
Inventories	(1,309)	(1,845)	(1,353)
Prepaid expenses	(266)	26	(36)
Refundable income taxes	2,362	(436)	994
Accounts payable	(800)	2,317	(1,007)
Accrued expenses	152	(2,243)	1,272
Other liabilities	29	(181)	(417)
Other assets	325	(146)	(368)
Net cash provided by operating activities	**13,098**	**11,126**	**16,106**
Cash flows from investing activities:			
Additions to property, plant, and equipment	(16,321)	(13,436)	(5,830)
Holdback payment related to the acquisition of Packaging Alternatives Corporation (PAC)	—	—	(600)
Redemption of cash value life insurance	—	—	37
Proceeds from sale of property, plant and equipment	53	112	1
Net cash used in investing activities	**(16,268)**	**(13,324)**	**(6,392)**
Cash flows from financing activities:			
Excess tax benefits on share-based compensation	356	1,219	818
Proceeds from the exercise of stock options, net of attestations	358	336	191
Principal repayment of long-term debt	(996)	(977)	(6,601)
Payment of statutory withholding for stock options exercised and restricted stock units vested	(209)	(831)	(879)
Repurchases of common stock	(587)	—	—
Payment of contingent note payable	—	(800)	—
Proceeds from long-term borrowings	—	—	580
Net cash used in financing activities	**(1,078)**	**(1,053)**	**(5,891)**
Net change in cash and cash equivalents	(4,248)	(3,251)	3,823
Cash and cash equivalents at beginning of year	34,052	37,303	33,480
Cash and cash equivalents at end of year	**$ 29,804**	**$ 34,052**	**$ 37,303**

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, consumer, electronics, industrial and aerospace and defense 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 for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurement or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

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

(d) Fair Value of Financial Instruments

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

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, 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 $20.4 million.

(f) Accounts Receivable

The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially uncollectable. Determining adequate reserves for accounts receivable requires management's judgment. Conditions impacting the realizability of the Company's receivables could cause actual asset write-offs to be materially different than the reserved balances as of December 31, 2015.

(g) Inventories

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

The Company periodically reviews the realizability of its inventory for potential excess or obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2015.

(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 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. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company consists of a single reporting unit. We last performed "step 1" of the goodwill impairment test as of September 30, 2014. We utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

- The reporting unit's 2015 estimated financials and five-year projections of financial results, which were based on our strategic plans and long-range forecasts. Sales growth rates represent estimates based on current and forecasted sales mix and market conditions. The profit margins were projected based on historical margins, projected sales mix, current expense structure and anticipated expense modifications.
- The projected terminal value which reflects the total present value of projected cash flows beyond the last period in the DCF. This value reflects a growth rate for the reporting unit, which is approximately the same growth rate of expected inflation into perpetuity.
- The discount rate determined using a Weighted Average Cost of Capital method ("WACC"), which considered market and industry data as well as Company-specific risk factors.
- Selection of guideline public companies which are similar to each other and to the Company.

As of September 30, 2014, based on our calculations under the above noted approach, the fair value of the reporting unit exceeded its carrying value by approximately $69 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. If our actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

The Company's annual impairment testing date is December 31. The Company performed a qualitative assessment ("step 0") as of December 31, 2015, and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company is not required to proceed to a "step 1" impairment assessment. Factors considered included the 2014 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

(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).

The Company issues share-based awards through several plans that are described in detail in Note 11. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Year Ended December 31		
	2015	2014	2013
Share-based compensation expense	$ 1,069	$ 1,119	$ 924

The compensation expense for stock options granted during the three-year period ended Decem-ber 31, 2015, 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		
	2015	2014	2013
Expected volatility	31.5% to 32.3%	32.8% to 37.9%	34.0% to 50.0%
Expected dividends	None	None	None
Risk-free interest rate	1.0% to 1.2%	0.7% to 0.9%	0.4% to 0.7%
Exercise price	$19.97-$22.36	$22.55-$25.48	$18.85-$21.67
Expected term	5.0 years	3.8 to 5.0 years	3.3 to 5.0 years
Weighted-average grant-date fair value	$ 6.04	$ 7.24	$ 5.84

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 $312,000, $320,000 and $280,000 for the years ended December 31, 2015, 2014 and 2013, 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 $1.4 million, $1.2 million and $1.2 million were expensed in the years ended December 31, 2015, 2014 and 2013, 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 17).

(r) Treasury Stock

The Company accounts for treasury stock under the cost method, using the first-in, first out flow assumption, and we include treasury stock as a component of stockholders' equity. During the year ended December 31, 2015, the Company repurchased 29,559 shares of common stock at a cost of approximately $587,000.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard will replace most existing revenue recognition guidance when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition methods. In August 2015, the FASB issued an update to defer the effective date of this update by one year. The updated standard becomes effective for the Company in the first quarter of fiscal year 2018, but allows the Company to adopt the standard one year earlier if it so chooses. The Company is evaluating the effect that the updated standard will have on our Consolidated Financial Statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our consolidated financial position and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The amendments in this ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this ASU are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We adopted the amendments in this ASU effective October 1, 2015, on a retrospective basis.

As a result of the adoption, the Company made the following adjustments to the 2014 balance sheet: a $1.1 million decrease to current deferred tax assets and total current assets; and a $1.1 million decrease to long-term deferred tax liabilities and total liabilities.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. The amendments in ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The Company is evaluating the impact of adopting this ASU on its consolidated financial position and results of operations.

(2) Supplemental Cash Flow Information

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

	Year Ended December 31		
	2015	**2014**	**2013**
Interest, net	$ (29)	$ 112	$ 210
Income taxes, net of refunds	$ 1,459	$ 3,259	$ 4,199

During the years ended December 31, 2015 and 2014, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock ("cashless" exercises) totaling approximately $36,000 and $372,000, respectively.

(3) Receivables

Receivables consist of the following (in thousands):

	December 31	
	2015	**2014**
Accounts receivable—trade	$ 17,980	$ 16,972
Less allowance for doubtful receivables	(499)	(502)
	$ 17,481	**$ 16,470**

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 $16,000 and $171,000 for the years ended December 31, 2015 and 2014, respectively.

(4) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2015	2014
Raw materials	$ 7,506	$ 7,145
Work in process	1,192	1,142
Finished goods	5,504	4,606
	$ 14,202	**$ 12,893**

(5) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2015 and 2014 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, 2015	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2015	(429)	(387)	(1,535)	(2,351)
Net balance at December 31, 2015	**$ —**	**$ 125**	**$ 511**	**$ 636**
Gross amount at December 31, 2014	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2014	(429)	(325)	(1,280)	(2,034)
Net balance at December 31, 2014	**$ —**	**$ 187**	**$ 766**	**$ 953**

Amortization expense related to intangible assets was approximately $318,000, $393,000 and $478,000, respectively, for the years ended December 31, 2015, 2014 and 2013. Future amortization for the years ending December 31 will be approximately (in thousands):

2016	318
2017	318
Total	**$ 636**

(6) Property, Plant, and Equipment

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

	December 31	
	2015	2014
Land and improvements	$ 3,191	$ 1,613
Buildings and improvements	25,399	15,988
Leasehold improvements	2,839	2,897
Machinery & Equipment	51,016	47,756
Furniture, fixtures, computers & software	6,498	5,291
Construction in progress–equipment	1,621	2,278
	$ 90,564	**$ 75,823**

Depreciation and amortization expense for the years ended December 31, 2015, 2014 and 2013, were approximately $4.5 million, $4.0 million, and $3.6 million, respectively.

(7) 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 credit facility was amended effective December 31, 2014, to modify the definition of "consolidated fixed-charge coverage ratio". The Company was in compliance with all covenants at December 31, 2015. The Company's $40 million credit facility matures on November 30, 2018.

In conjunction with the execution of the 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, 2015, the Company had no borrowings outstanding under the 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, 2015, approximately $5.0 million had been advanced on the loan and the outstanding balance was approximately $1.9 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	
	2015	**2014**
Equipment loans	$ 1,870	$ 2,866
Total long-term debt	**1,870**	**2,866**
Current Installments	(1,011)	(993)
Long-term debt, excluding current installments	**$ 859**	**$ 1,873**

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

Year ending December 31:	
2016	1,011
2017	859
	$ 1,870

(8) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2015	**2014**
Compensation	$ 2,107	$ 1,811
Benefits/self-insurance reserve	250	411
Paid time off	965	921
Commissions payable	319	164
Unrecognized tax benefits (including interest and penalties) (see Note 9)	315	425
Other	1,418	1,490
	$ 5,374	**$ 5,222**

(9) Income Taxes

The Company's income tax provision for the years ended December 31, 2015, 2014 and 2013 consists of the following (in thousands):

	Years Ended December 31		
	2015	**2014**	**2013**
Current:			
Federal	$ 3,131	$ 2,638	$ 4,353
State	580	336	824
	3,711	**2,974**	**5,177**
Deferred:			
Federal	508	1,262	641
State	(71)	(30)	99
	437	**1,232**	**740**
Total income tax provision	**$ 4,148**	**$ 4,206**	**$ 5,917**

At December 31, 2015, the Company had net operating loss carryforwards for federal income tax purposes of approximately $415,000, which are available to offset future taxable income and expire during the federal tax year ending December 31, 2019. 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	
	2015	**2014**
Deferred tax assets:		
Reserves	$ 532	$ 428
Inventory capitalization	407	264
Compensation programs	501	404
Retirement liability	27	35
Equity-based compensation	290	276
Net operating loss carryforwards	141	242
Deferred rent	10	36
Intangible assets	264	188
Total deferred tax assets:	**$ 2,172**	**$ 1,873**
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	$ (4,186)	$ (3,471)
Goodwill	(869)	(848)
Total deferred tax liabilities	**$ (5,055)**	**$ (4,319)**
Net long-term deferred tax liabilities	**$ (2,883)**	**$ (2,446)**

The amounts recorded as deferred tax assets as of December 31, 2015, and 2014, 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 $2.2 million at December 31, 2015, 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 34.0% to income before income tax expense as follows:

	Years Ended December 31		
	2015	**2014**	**2013**
Computed "expected" tax rate	34.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	2.3	1.1	3.6
Meals and entertainment	0.3	0.3	0.1
R&D credits	(0.8)	(0.7)	(1.0)
Domestic production deduction	(2.5)	(1.4)	(2.4)
Non-deductible ISO stock option expense	0.4	0.4	0.2
Unrecognized tax benefits	—	1.3	(0.1)
Other	1.6	0.8	—
Effective tax rate	**35.3%**	**35.8%**	**34.4%**

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan which have been audited through 2004, income tax returns filed in Massachusetts which have been audited through 2007 and income tax returns filed in Florida which have been audited through 2009. The Company's federal tax return for 2008 has been audited. Federal and state tax returns for the years 2012 through 2014 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	
	2015	2014
Gross UTB balance at beginning of fiscal year	$ 230	$ 275
Increases for tax positions of prior years	—	—
Reductions for tax positions of prior years	(68)	(45)
Gross UTB balance at end of fiscal year	**$ 162**	**$ 230**

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2015 and 2014, are $162,000 and $230,000, respectively.

In addition, the total amount of accrued interest and penalties on uncertain tax positions at December 31, 2015 and 2014 are $153,000 and $195,000, respectively.

At December 31, 2015, 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 2016, since the Company expects to resolve this examination in 2016.

(10) 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		
	2015	2014	2013
Basic weighted average common shares outstanding during the year	7,115	7,028	6,824
Weighted average common equivalent shares due to stock options and restricted stock units	104	147	281
Diluted weighted average common shares outstanding during the year	**7,219**	**7,175**	**7,105**

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, 2015, 2014 and 2013, the number of stock awards excluded from the computation was 72,495, 53,651 and 78,908, respectively.

(11) Stock Option and Equity Incentive Plans

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, 2015, 1,178,449 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 40,645 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, 2015, 170,000 options have been granted and 105,000 options are outstanding. At December 31, 2015, 882,156 shares or options are available for future issuance in the 2003 Incentive Plan.

Director Plan

Effective July 15, 1998, the Company adopted the 1998 Director Plan, which was amended and renamed, on June 3, 2009, the 2009 Non-Employee Director Stock Incentive Plan (the "Director Plan"). The Director Plan was amended on March 7, 2013, to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options. The Director Plan, as amended, provides for the issuance of stock options and other equity-based securities of up to 975,000 shares to non-employee members of the Company's board of directors. Through December 31, 2015, 308,626 options have been granted and 165,205 options are outstanding. For the year ended December 31, 2015, 5,647 shares of common stock were issued and 153,202 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, 2014	**340,107**	**$ 12.84**	—	—
Granted	18,844	20.14	—	—
Exercised	(78,746)	5.03	—	—
Cancelled or expired	(10,000)	18.85	—	—
Outstanding December 31, 2015	**270,205**	**$ 15.40**	**3.80**	**$ 2,311**
Exercisable at December 31, 2015	**222,706**	**$ 14.20**	**4.04**	**$ 2,166**
Vested and expected to vest at December 31, 2015	**270,205**	**$ 15.40**	**3.80**	**$ 2,311**

During the years ended December 31, 2015, 2014 and 2013, the total intrinsic value of all options exercised (i.e., the difference between the market price and the price paid by the employees to exercise the options) was approximately $1.3 million, $3.4 million, and $2.1 million, respectively, and the total amount of consideration received from the exercise of these options was approximately $394,000, $709,000, and $416,000, 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, 2015, 1,632 shares (1,632 for options and zero for taxes) were surrendered at an average market price of $21.97. During the year ended December 31, 2014, 32,164 shares (14,931 for options and 17,233 for taxes) were surrendered at an average market price of $25.42. During the year ended December 31, 2013, 26,662 shares were surrendered at an average market price of $20.54.

During the years ended December 31, 2015, 2014 and 2013, the Company recognized compensation expense related to stock options granted to directors and employees of approximately $282,000, $354,000 and $214,000, respectively.

On February 24, 2015, the Company's Compensation Committee approved the 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 22, 2015. The Company has recorded compensation expense of $400,000 for the year ended December 31, 2015. Stock compensation expense of $400,000 was also recorded in both 2014 and 2013 for similar awards.

On December 16, 2015, the Company issued 391 shares of unrestricted common stock to a non-employee member of the Company's Board of Directors as part of their retainer for serving on the Board. Based upon the closing price of $22.36 on December 16, 2015, the Company recorded compensation expense of $8,750 associated with the stock issuance for the year ended December 31, 2015.

On June 10, 2015, the Company issued 5,256 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 $19.97 on June 10, 2015, the Company recorded compensation expense of $105,000 associated with the stock issuance for the year ended December 31, 2015. The Company recorded compensation expense of $122,000 and $60,000 for similar awards in 2014 and 2013, respectively.

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, 2015:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2014	**35,088**	**$ 17.87**
Awarded	15,983	23.46
Shares distributed	(10,426)	18.35
Forfeited/Cancelled	—	—
Outstanding at December 31, 2015	**40,645**	**$ 19.67**

The Company recorded approximately $274,000, $237,000, and $250,000 in compensation expense related to these RSUs during the years ended December 31, 2015, 2014 and 2013, 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, 2015, 3,405 shares were redeemed for this purpose at an average market price of $23.15. During the years ended December 31, 2014 and 2013, 9,878 and 22,089 shares were redeemed for this purpose at an average market price of $25.88 and $19.29, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2015, vest (in thousands):

	Options	Common Stock	Restricted Stock Units	Total
2016	$ 133	—	$ 241	$ 374
2017	44	—	195	239
2018	16	—	109	125
2019	—	—	16	16
Total	**$ 193**	**$ —**	**$ 561**	**$ 754**

Tax benefits totaling approximately $356,000, $1,219,000, and $818,000 were recognized as additional paid-in capital during the years ended December 31, 2015, 2014 and 2013, respectively, since the Company's tax deductions exceeded the share-based compensation charge recognized for stock options exercised and RSUs vested.

(12) 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.

(13) 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 $4,000, $23,000, and $17,000 for the years ended December 31, 2015, 2014 and 2013, respectively. The present value of the supplemental retirement obligation has been calculated using a 4.0% discount rate, and is included in retirement and other liabilities. Total projected future cash payments for the years ending December 31, 2016 through 2019, are approximately $25,000 for each year.

(14) Commitments and Contingencies

(a) ***Leases*** – The Company has operating leases for certain facilities that expire through 2017. 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, 2015, are as follows (in thousands):

Years Ending December 31	Operating Leases
2016	888
2017	376
Total minimum lease payments (a)	**$ 1,264**

(a) Minimum payments have not been reduced by minimum sublease rentals of approximately $314,000 due in the future under non-cancelable subleases.

Rent expense amounted to approximately $1.2 million, $1.8 million, and $2.0 million in 2015, 2014 and 2013, 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.

(15) 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 profit sharing amounts determined by the Board of Directors to be funded by March 15 following each fiscal year. Contributions were approximately $750,000, $750,000 and $800,000 in 2015, 2014 and 2013, 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 $200,000 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 other liabilities in the accompanying balance sheets. At December 31, 2015 and 2014, the balance of the deferred compensation liability totaled approximately $1.5 million for each period. 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 $1.7 million and $2.0 million as of December 31, 2015 and 2014, respectively.

(16) 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.

(17) Segment Data

The Company consists of a single operating and reportable segment.

Revenues from customers outside of the United States are not material. No customer comprised more than 10% of the Company's consolidated revenues for the year ended December 31, 2015. A vast majority of the Company's assets are located in the United States.

The Company's custom products are primarily sold to customers within the Medical, Automotive, Consumer, Electronics, Industrial and Aerospace and Defense markets. Sales by market for the fiscal years ended December 31, 2015 and 2014 are as follows (in thousands):

Market	2015 Net Sales	%	2014 Net Sales	%
Medical	$ 57,297	41.3%	$ 50,092	36.0%
Automotive	26,879	19.4%	27,358	19.6%
Consumer	17,274	12.4%	17,661	12.7%
Electronics	13,218	9.5%	15,830	11.4%
Aerospace & Defence	13,154	9.5%	15,158	10.9%
Industrial	11,028	7.9%	13,208	9.5%
Net Sales	**$ 138,850**	**100.0%**	**$ 139,307**	**100.0%**

(18) Quarterly Financial Information (unaudited)

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

2015	Q1	Q2	Q3	Q4
Net sales	$ 33,977	$ 36,499	$ 34,441	$ 33,933
Gross profit	8,638	10,293	9,510	9,013
Net income	1,653	2,272	1,992	1,676
Basic net income per share	0.23	0.32	0.28	0.24
Diluted net income per share	0.23	0.32	0.28	0.23

2014	Q1	Q2	Q3	Q4
Net sales	$ 34,609	$ 34,025	$ 35,406	$ 35,267
Gross profit	9,177	9,545	9,752	8,406
Net income	2,062	1,860	2,066	1,571
Basic net income per share	0.30	0.27	0.29	0.22
Diluted net income per share	0.29	0.26	0.29	0.22

(19) Plant Consolidation

On March 18, 2015, the Company committed to move forward with a plan to cease operations at its Raritan, New Jersey, plant and consolidate operations into its Newburyport, Massachusetts, facility and other UFP facilities. The Company's decision was in response to a continued decline in business at the Raritan facility and the recent purchase of the 137,000-square-foot facility in Newburyport. The activities related to this consolidation were substantially complete at December 31, 2015.

The Company also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts facilities and plans to relocate certain operations in its Georgetown, Massachusetts facility to Newburyport. The Haverhill and Byfield relocations were complete at December 31, 2015 and the Georgetown relocation is expected to be complete by June 30, 2016.

The Company expects to incur approximately $2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount are approximately $180,000 relating to employee severance payments and relocation costs, approximately $1.5 million in moving expenses and expenses associated with vacating the Raritan, Haverhill and Byfield properties, and approximately $360,000 in lease termination costs. Total cash charges are estimated at $2.0 million. The Company expects annual cost savings of approximately $1.0 million as a result of these consolidations. The actual costs incurred through December 31, 2015 are included in the table below.

On July 16, 2014, the Company committed to move forward with a plan to cease operations at its Costa Mesa, California, plant and consolidate operations into its Rancho Dominguez, California, facility and other UFP facilities. The Company's decision was in response to the December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. The California consolidation is complete and the actual costs incurred are included in the table below.

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 consolidation into the Michigan facility is complete and the actual costs incurred are included in the table below.

The Company has recorded the following restructuring costs associated with the consolidations discussed above for the fiscal years ended December 31, 2015 and 2014 (in thousands):

	2015			2014		
Restructuring Costs	**Massachusetts**	**California**	**Total**	**Michigan**	**California**	**Total**
Employee severance	$ 178	$ 18	$ 196	$ 237	$ 10	$ 247
Relocation	1,138	66	1,204	356	501	857
Lease termination	356	-	356	-	-	-
Workforce training	-	-	-	373	-	373
Plant infrastructure	-	-	-	79	-	79
Total restructuring costs	**$ 1,672**	**$ 84**	**$ 1,756**	**$ 1,045**	**$ 511**	**$ 1,556**

The 2015 costs were reclassified in the Consolidated Statement of Operations as “Restructuring Costs” as follows: $1,669,000 from Cost of Sales, $36,000 from Selling, General and Administrative expenses and $51,000 from Gain on sales of property, plant and equipment. The 2014 costs were reclassified in the Consolidated Statement of Operations as “Restructuring Costs” as follows: $1,385,000 from Cost of Sales, $82,000 from Selling, General and Administrative expenses and $89,000 from Gain on sales of property, plant and equipment.

(20) Related Party Transactions

On December 16, 2015, Daniel Croteau was appointed to our board of directors. Mr. Croteau is also the Chief Executive Officer of Vention Medical, Inc., a customer of the Company. Sales to Vention subsequent to Mr. Croteau joining the board were approximately $5,000. At December 31, 2015, accounts receivable due from Vention were approximately $33,000 and total sales to Vention for the year ended December 31, 2015 were approximately $540,000.

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. These statements are subject to known and unknown risks, uncertainties, and other factors, which may cause our or our industry's actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about the Company's prospects, anticipated trends in the different markets in which the Company competes, including the medical, automotive, consumer, electronics, industrial and aerospace and defense markets, statements regarding anticipated new customer contracts and new project approvals, anticipated advantages relating to the Company's decisions to consolidate its Midwest, California and Northeast facilities and the expected cost savings and efficiencies associated therewith, anticipated advantages of maintaining fewer, larger plants, anticipated advantages the Company expects to realize from its investments and capital expenditures, including the development of and investments in its molded fiber product lines, anticipated advantages the Company expects to realize as a result of its new enterprise resource planning software system and its new customer relationship management system, expectations regarding the manufacturing capacity and efficiencies of the Company's new production equipment, statements about the Company's acquisition opportunities and strategies and the prospect of pursuing new acquisition opportunities, its participation and growth in multiple markets, including the medical/biotech market, its business opportunities, the Company's growth potential and strategies for growth, anticipated revenues and the timing of such revenues, and any indication that the Company may be able to sustain or increase its sales or earnings or sales and earnings growth rates. Investors are cautioned that such forward-looking statements involve risks and uncertainties, including without limitation risks and uncertainties associated with plant closures and expected efficiencies from consolidating manufacturing, the risk that the Company may not be able to finalize anticipated new customer contracts, risks associated with new project approvals, risks associated with the implementation of new production equipment in a timely, cost-efficient manner, risks that any benefits from such new equipment may be delayed or not fully realized, or that the Company may be unable to fully utilize its expected production capacity, and risks and uncertainties associated with the identification of suitable acquisition candidates and the successful, efficient execution of acquisition transactions, the integration of any such acquisition candidates and the value of those acquisitions to our customers and shareholders. Accordingly, actual results may differ materially. The forward-looking statements contained herein speak only of the Company's expectations as of the date of this report. Except as otherwise required by law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions, or circumstances on which any such statement is based. We qualify all of our forward-looking statements by these cautionary statements and those set forth in our other filings with the Securities and Exchange Commission, including those set forth under Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

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

STOCKHOLDER INFORMATION

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

ANNUAL MEETING
The annual meeting of stockholders will be held at 10:00 a.m. on June 9, 2016, 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
100 Hale Street
Newburyport, MA 01950 USA

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

FORM 10-K REPORT
A copy of the Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Company, or on the Company's website at www.ufpt.com/investors/filings.html.

CORPORATE HEADQUARTERS
UFP Technologies, Inc.
100 Hale Street
Newburyport, MA 01950 USA
(978) 352-2200 phone
(978) 352-5616 fax

PLANT LOCATIONS
California, Colorado, Florida, Georgia, Iowa, Massachusetts, Michigan, 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

Daniel C. Croteau **d**
Chief Executive Officer
Vention Medical, Inc.

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

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

Ronald J. Lataille **o**
Sr. 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 Company, Inc.

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

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

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

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

David K. Stevenson **d**
Director

d Directors **o Officers**

OPERATING PRINCIPLES

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

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

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

QUALITY
We are dedicated to 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

100 Hale Street, Newburyport, MA 01950 | 800 372 3172 | ufpt.com