UFP TECHNOLOGIES

2016 ANNUAL REPORT

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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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Dear Fellow Shareholder,

2016 was another strong year for UFP Technologies. We achieved record sales of $146 million and continued to make great progress in shifting our book of business toward highly engineered medical programs, while strengthening our platform to better serve our growing customer base.

In this letter, I will discuss our strategic shift toward medical sales, which rose 12.6% in 2016 and have grown at an average annual compounded rate of 17% for the last ten years. I will explain why our skills are an excellent fit for this market, and how this shift in focus will help UFP secure long-term profitable growth.

Clear vision, firm direction

Our vision is to be our customers' most valued partner, and their first choice for solutions involving fabricated or molded foams, plastics, and natural fibers. So we have tightened our focus to capitalize on opportunities that best fit our unique capabilities. In recent years, most of those opportunities have been in the medical space. It's where UFP's skills and market needs are in perfect sync, where we can add the most value and therefore enjoy the highest margins.

Ten years ago, our medical sales were roughly in line with other target markets. Then came a series of strategic acquisitions. The steady expansion of our clean rooms and specialized equipment. The creation of a dedicated medical team. The development of our own branded products. The signing of one major customer after another. As a result, medical sales have grown 379% over these ten years, and now account for nearly half our total revenue.

For us and our customers, a true win-win

Why are so many medical customers drawn to UFP? First, they benefit from our outstanding team of

"Our medical sales are up 379% over the last ten years. This is no accident. It's the result of many strategic decisions and investments."

engineers, who know how to solve even the toughest product and packaging challenges. We also give customers access to the broadest range of medical-grade materials, and the latest material innovations, thanks to our close supplier relationships.

When it comes to production, we offer the critical resources medical customers need, from in-house mold-making to diverse manufacturing capabilities in eight states. In all, we have ten clean rooms and a broad range of certified quality systems across the country; our ability to provide redundant manufacturing capacity for large orders is also an important advantage.

Our medical programs are often multiyear production runs, with long-term contracts that bring a level of security beneficial to both parties. Once a UFP component is designed into an FDA-approved product, it would be very costly for customers to switch out. So they value the partnership just as much as we do. For our part, these long-term arrangements allow us to maximize returns on the large engineering investments often required to get new programs up and running.

Our plan to keep growing

Looking ahead, we see great opportunities in areas like robotic surgery, negative pressure wound therapy, post-surgical stimulation products, orthopedic braces, and branded products such as our FlexShield® medical device pouches. We are focused on increasing our penetration of these segments, and others, while continuing to attract and develop the top talent we need in this space. We are also working to strengthen our critical supplier relationships with joint agreements designed to grow our business and protect our engineered solutions.

Our medical customers trust us to provide innovative solutions and the highest quality parts. We tackle their most challenging problems and prove time and time again our ability to deliver. The market is growing, the opportunities are vast, and we have every reason to believe our medical sales and profits will continue to climb.

Steady progress in other target markets

Despite the tremendous growth of our medical business, our other five target markets – automotive, aerospace and defense, electronics, consumer and industrial – still account for more than half of total sales. We see new opportunities for many of our traditional applications, such as protective cases and inserts, molded fiber packaging, and acoustical and thermal insulation. These types of solutions provide a reliable stream of income year after year. We are committed to their continued success, and are constantly working to improve every aspect of our Company, from operating efficiencies to customer service.

With continued growth expected in our medical business, and a robust pipeline of exciting opportunities across the Company, we are bullish about our long-term success. As always, I thank you for your support of UFP Technologies.

Sincerely,

R. Jeffrey Bailly
Chairman and CEO

A COMPANY ON THE MOVE:
Some key developments of the past year.

We continued to strengthen our strategic partnerships with key material suppliers. For example, we signed a five-year deal with Zotefoams Inc., our largest supplier of cross-linked polyethylene foams. It gives UFP exclusive or semi-exclusive access to a wide range of unique high-value medical grades of foam.

We enjoyed strong sales of our orthopedic brace components in 2016. These often involve encapsulating electronics or metals, a complex process that's become a core skill. Other growing medical segments include robotic surgery and negative pressure wound therapy.

We secured new contracts with many of our largest medical customers. Most of our medical sales involve long-term programs, multiyear production runs and plenty of repeat business.

We completed our plant consolidations in 2016, and now have a much stronger platform from which to grow. As part of this process, we've optimized factory layouts to streamline workflows and improve efficiency.

We added new clean rooms in 2016 and now have ten across the US for medical customers. Other recent equipment initiatives include new skiving machines, custom molding lines, automated assembly equipment, and rotary sealing equipment.

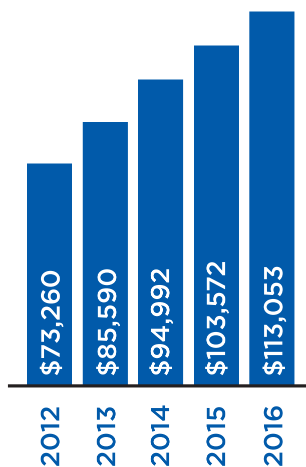
We have begun a relationship with Boeing, long a key aerospace target. After completing the aerospace AS9100 certification process and Boeing internal quality audit, we demonstrated proof of concept for a complex sample product, and are on track to become a qualified vendor.

We continued to strengthen our team, adding new sales and engineering talent, filling key managerial positions, and introducing new training initiatives to get new hires up and running quickly. Attracting and retaining more top talent remains a high priority.

R&D initiatives, like advances in lightweight structural panels for auto load floors, could potentially boost sales to the automotive market in coming years. Other innovations, such as new honeycomb/glass fiber materials, hold great promise for other target markets.

Demand remains strong for our Wine Packs® made from 100% recycled paper. We believe the environmental benefits of our molded fiber packaging will only grow more compelling; new pulp additives are enhancing performance as well.

SHAREHOLDERS' EQUITY



Given our strong balance sheet and streamlined national factory footprint, we are well positioned to integrate new acquisitions as strategic opportunities are identified. We've widened the search beyond our traditional scope, and the pipeline has never been more promising.

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 income data for the fiscal years ended December 31, 2016, 2015, and 2014, and the selected balance sheet data as of December 31, 2016, and 2015, are derived from our audited consolidated financial statements, which are included elsewhere in this Report. The selected statements of income data for the years ended December 31, 2013, and 2012, and the balance sheet data at December 31, 2014, 2013, and 2012, 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	**2016**	**2015**	**2014**	**2013**	**2012**
Net sales	$ 146,132	$ 138,850	$ 139,307	$ 139,223	$ 130,962
Gross profit	34,650	37,454	36,880	41,014	38,319
Operating income	12,237	11,714	11,561	17,398	16,666
Net income	7,970	7,593	7,559	11,276	10,895
Diluted earnings per share	1.10	1.05	1.05	1.59	1.55
Weighted average number of diluted shares outstanding	7,275	7,206	7,175	7,105	7,028

	As of December 31 (in thousands)				
Consolidated balance sheet data	**2016**	**2015**	**2014**	**2013**	**2012**
Working capital	$ 60,291	$ 52,620	$ 55,658	$ 56,398	$ 51,263
Total assets	127,934	119,635	112,548	104,908	98,617
Short-term debt obligations	856	1,011	993	976	1,550
Long-term debt, excluding current portion	-	859	1,873	2,867	8,314
Total liabilities	14,881	16,063	17,556	19,318	25,357
Stockholders' equity	113,053	103,572	94,992	85,590	73,260

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, 2015, to December 31, 2016:

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

Fiscal Year Ended December 31, 2016	**High**	**Low**
First Quarter	$ 24.40	$ 20.50
Second Quarter	25.49	20.40
Third Quarter	27.35	21.70
Fourth Quarter	27.50	24.50

NUMBER OF STOCKHOLDERS

As of March 2, 2017, there were 71 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 2015 or 2016. 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 year ended December 31, 2016. 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, 2016, 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 grew sales by 5.2% for its fiscal year ended December 31, 2016, largely due to sales increases to the medical and consumer markets. However, gross margins continued to be impacted by manufacturing inefficiencies related to the Company's plant consolidations and need to requalify parts with many of its medical customers. The Company anticipates that these inefficiencies will diminish during 2017. Also, the Company recently secured contracts on both the vendor and customer fronts that should strengthen its position to grow.

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

RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, the percentage of revenues represented by the items as shown in the Company's Consolidated Statements of Income:

	2016	2015	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	76.3%	73.0%	73.5%
Gross profit	**23.7%**	**27.0%**	**26.5%**
Selling, general, and administrative expenses	16.5%	17.3%	17.1%
Restructuring costs	0.3%	1.3%	1.1%
Material overcharge settlement	-1.4%	0.0%	0.0%
(Gain) loss on sale of fixed assets	0.0%	0.0%	0.0%
Operating income	**8.3%**	**8.4%**	**8.3%**
Total other (income) expenses, net	-0.1%	-0.1%	-0.1%
Income before taxes	**8.4%**	**8.5%**	**8.4%**
Income tax expense	2.9%	3.0%	3.0%
Net income from consolidated operations	**5.5%**	**5.5%**	**5.4%**

2016 COMPARED TO 2015

Sales

Net sales increased 5.2% to $146.1 million for the year ended December 31, 2016, from net sales of $138.9 million in 2015, primarily due to increases in sales to customers in the medical and consumer markets of approximately 12.6% and 24.0%, respectively, partially offset by decreases in sales to customers in the aerospace and defense and electronics markets of approximately 20.2% and 12.4%, respectively. The increase in sales to customers in the medical market was largely due to a new five-year contract with one of the Company's larger customers in this market as well as an overall increase in demand from other medical customers. The increase in sales to customers in the consumer market was largely due to increased demand for molded fiber protective packaging for consumer products. The reduction in sales to customers in the aerospace and defense market was largely due to continued cuts in government spending. The decrease in sales to customers in the electronics market in 2016 was primarily due to a temporary spike in demand for packaging at one of our larger customers in 2015. The Company recently secured contracts on both the vendor and customer fronts that should strengthen its position to grow.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") decreased to 23.7% for the year ended December 31, 2016, from 27.0% in 2015. As a percentage of sales, material and direct labor costs collectively increased approximately 2.6%, while overhead increased approximately 0.4%. The increase in material and direct labor costs was primarily due to manufacturing inefficiencies of approximately $3.6 million resulting from recent plant consolidations and the resulting need to requalify parts with many of the Company's customers in the medical market. The Company anticipates that these manufacturing inefficiencies will diminish during 2017.

Selling, General, and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") increased 0.4% to $24.1 million for the year ended December 31, 2016, from $24.0 million in 2015. The slight increase in SG&A for the year ended December 31, 2016, is primarily due to increased recruiting and other professional fees of approximately $500,000 partially offset by decreased compensation and benefit expenses of approximately $350,000.

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 facility in Newburyport. The activities related to this consolidation are complete.

The Company also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts, facilities and is in the process of relocating 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 substantially complete.

The Company has incurred 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 were approximately $2.0 million. The Company expects annual cost savings of approximately $1.0 million as a result of these consolidations.

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 was complete at December 31, 2015.

The Company recorded the following restructuring costs associated with the consolidations discussed above for the fiscal years ended December 31, 2016, and 2015 (in thousands):

	2016		2015		
Restructuring Costs	**Massachusetts**	**Total**	**Massachusetts**	**California**	**Total**
Employee severance	$ -	$ -	$ 178	$ 18	$ 196
Relocation	420	420	1,138	66	1,204
Lease termination	-	-	356	-	356
Total restructuring costs	**$ 420**	**$ 420**	**$ 1,672**	**$ 84**	**$ 1,756**

The 2016 costs were reclassified in the Consolidated Statement of Income as "Restructuring Costs" from Cost of Sales. The 2015 costs were reclassified in the Consolidated Statement of Income 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.

Material Overcharge Settlement
The Company was a participant in a class action lawsuit against a number of polyurethane foam suppliers ("Defendants") that recently reached settlement. The suit was filed to recover damages and obtain injunctive relief for Defendants' alleged violations of the federal antitrust laws with respect to the fixing of prices of polyurethane foam sold from January 1, 1999, through August 2010. The Company recorded a gain of approximately $2.1 million during the year ended December 31, 2016, which represents the full settlement amount received. The settlement amount is recorded as "Material overcharge settlement" in the operating income section of the Consolidated Statements of Income.

Interest Income and Expense
The Company had net interest income of approximately $80,000 for the year ended December 31, 2016, compared to net interest income of approximately $27,000 for the year ended December 31, 2015. The increase in net interest income is due primarily to an increase in interest earned on money market accounts and certificates of deposit and decreasing interest costs on the Company's term loans.

Income Taxes
The Company recorded income tax expense as a percentage of income before income tax expense, of 35.3% for each of the years ended December 31, 2016, and 2015. 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, 2016. 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.

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 enterprise resource planning software system 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 facility in Newburyport. The activities related to this consolidation are complete.

The Company also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts, facilities and is in the process of relocating 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 substantially complete.

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 on the next page.

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 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 Income 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 Income 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 was 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, was primarily attributable to a higher than 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, 2016. 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, 2016, was approximately $9.4 million and was primarily a result of net income generated of approximately $8.0 million, depreciation and amortization of approximately $5.6 million, share-based compensation of approximately $1.0 million, an increase in deferred taxes of approximately $0.6 million, an increase in other liabilities of $0.2 million, and a decrease in refundable income taxes of approximately $0.2 million. These cash inflows and adjustments to income were partially offset by an increase in accounts receivable of approximately $3.8 million due to an increase in sales during the fourth quarter of 2016 over the same period for 2015 of approximately $2.6 million and an increase in payment terms to a large customer, an increase in prepaid expenses of approximately $1.4 million due primarily to prepayments on equipment purchases, and a decrease in accounts payable and accrued expenses of approximately $1.0 million due to the timing of vendor payments in the ordinary course of business.

Net cash used in investing activities during the year ended December 31, 2016, was approximately $7.3 million of which approximately $2.6 million was the result of renovations to our corporate headquarters and manufacturing facility in Newburyport, Massachusetts, and approximately $4.7 million was the result of other additions of technology, manufacturing machinery, and equipment across the Company.

Net cash used in financing activities was approximately $0.6 million for the year ended December 31, 2016, representing cash used to service term debt of approximately $1.0 million and to pay statutory withholding for stock options exercised and restricted stock units vested of approximately $0.2 million, partially offset by excess tax benefits on share-based compensation of approximately $0.1 million, and net proceeds received upon stock option exercises of approximately $0.5 million.

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, 2016, the Company had no borrowings outstanding under the credit facility. Included in the credit facility were approximately $0.4 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies. As of December 31, 2016, 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, 2016, the outstanding balance of the term loan facility was approximately $856,000.

Future Liquidity

The Company requires cash to pay its operating expenses, to 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 $9.4 million in operations during the year ended December 31, 2016; however, the Company cannot guarantee that its operations will generate cash in future periods. The Company's longer-term liquidity is contingent upon future operating performance.

Throughout fiscal 2017, the Company plans to continue to add capacity to enhance operating efficiencies in its manufacturing plants. The Company plans to 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 12 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. There were no share repurchases during the year ended December 31, 2016. 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, 2016, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations at December 31, 2016 (in thousands):

	Payment Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Equipment loans	$ 856	$ 856	$ -	$ -	$ -
Operating leases	891	675	140	76	-

Debt interest	7	7	-	-	-
Supplemental retirement	75	25	50	-	-
Total	**$ 1,829**	**$ 1,563**	**$ 190**	**$ 76**	**$ -**

The Company requires cash to pay its operating expenses, to 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, 2016, it cannot guarantee that its operations will generate cash in future periods. Subject to the Risk Factors set forth in Part I, Item 1A of this Report and the general disclaimers set forth in our Special Note Regarding forward-looking Statements at the outset of this Report, we believe that cash flow from operations will provide us with sufficient funds in order to fund our expected operations over the next 12 months.

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

OFF-BALANCE-SHEET ARRANGEMENTS

In addition to operating leases, the Company's off-balance-sheet arrangements include standby letters of credit, which are included in the Company's revolving credit facility. As of December 31, 2016, there was approximately $0.4 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies.

CRITICAL ACCOUNTING POLICIES

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

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

The Company has reviewed these policies with its Audit Committee.

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

- **Goodwill** Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. 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 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, 2016, 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, macroeconomic 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, 2016.

- **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.

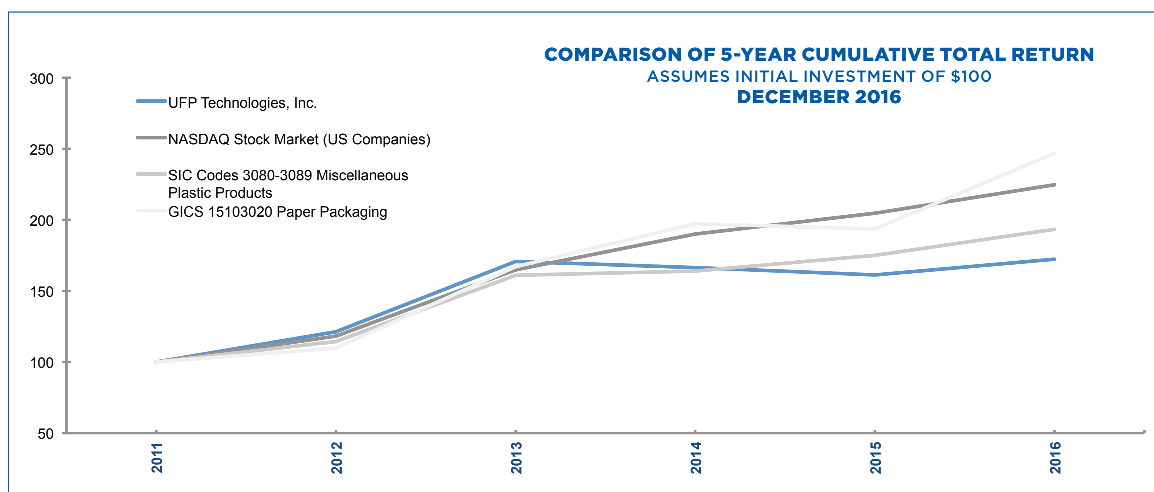
  The Company periodically reviews the realizability of its inventory for potential excess or obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2016.

- **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, 2016, 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, 2016, 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, 2016 and 2015, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 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, 2016, 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 10, 2017 expressed an unqualified opinion.

GRANT THORNTON LLP
Boston, Massachusetts
March 10, 2017

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, 2016, 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, 2016, 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, 2016, and our report dated March 10, 2017 expressed an unqualified opinion on those financial statements.

GRANT THORNTON LLP
Boston, Massachusetts
March 10, 2017

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31	
ASSETS	**2016**	**2015**
Current assets:		
Cash and cash equivalents	$ 31,359	$ 29,804
Receivables, net	21,249	17,481
Inventories	14,151	14,202
Prepaid expenses	2,281	930
Refundable income taxes	807	871
Total current assets	**69,847**	**63,288**
Property, plant, and equipment	96,806	90,564
Less accumulated depreciation and amortization	(48,290)	(44,009)
Net property, plant, and equipment	48,516	46,555
Goodwill	7,322	7,322
Intangible assets, net	318	636
Other assets	1,931	1,834
Total assets	**$ 127,934**	**$ 119,635**

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,002	$ 4,598
Accrued expenses	4,698	5,059
Current installments of long-term debt	856	1,011
Total current liabilities	**9,556**	**10,668**
Long-term debt, excluding current installments	—	859
Deferred income taxes	3,459	2,883
Non-qualified deferred compensation plan	1,682	1,482
Other liabilities	184	171
Total liabilities	**14,881**	**16,063**
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value, 20,000,000 shares authorized; 7,242,023 and 7,212,464 shares issued and outstanding, respectively at December 31, 2016; 7,170,377 and 7,140,818 shares issued and outstanding, respectively at December 31, 2015	72	72
Additional paid-in capital	25,216	23,705
Retained earnings	88,352	80,382
Treasury stock at cost, 29,559 shares at December 31, 2016 and December 31, 2015	(587)	(587)
Total stockholders' equity	**113,053**	**103,572**
Total liabilities and stockholders' equity	**$ 127,934**	**$ 119,635**

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

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Years Ended December 31		
	2016	**2015**	**2014**
Net sales	$ 146,132	$ 138,850	$ 139,307
Cost of sales	111,482	101,396	102,427
Gross profit	**34,650**	**37,454**	**36,880**
Selling, general, and administrative expenses	24,105	24,008	23,847
Restructuring costs	420	1,756	1,556
Material overcharge settlement	(2,114)	—	—
(Gain) loss on sales of property, plant, and equipment	2	(24)	(84)
Operating Income	**12,237**	**11,714**	**11,561**
Other (income) expenses:			
Interest income	(149)	(114)	(46)
Interest expense	69	87	154
Other, net	—	—	(312)
Total other (income) expense	(80)	(27)	(204)
Income before income tax provision	**12,317**	**11,741**	**11,765**
Income tax expense	4,347	4,148	4,206
Net income from consolidated operations	**7,970**	**7,593**	**7,559**
Net income per share:			
Basic	$ 1.11	$ 1.07	$ 1.08
Diluted	$ 1.10	$ 1.05	$ 1.05
Weighted average common shares:			
Basic	7,190	7,102	7,028
Diluted	7,275	7,206	7,175

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2016, 2015, and 2014

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
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)	—	—	—	30	(587)	(587)
Net income	—	—	—	7,593	—	—	7,593
Balance at December 31, 2015	**7,140**	**$ 72**	**$ 23,705**	**$ 80,382**	**$ 30**	**$ (587)**	**$ 103,572**
Share-based compensation	33	—	1,056	—	—	—	1,056
Exercise of stock options net of shares presented for exercise	48	—	529	—	—	—	529
Net share settlement of restricted stock units and stock option tax withholding	(9)	—	(219)	—	—	—	(219)
Excess tax benefits on share-based compensation	—	—	145	—	—	—	145
Net income	—	—	—	7,970	—	—	7,970
Balance at December 31, 2016	**7,212**	**$ 72**	**$ 25,216**	**$ 88,352**	**$ 30**	**$ (587)**	**$ 113,053**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2016	**2015**	**2014**
Cash flows from operating activities:			
Net income from consolidated operations	$ 7,970	$ 7,593	$ 7,559
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,634	4,846	4,376
Loss on sales of property, plant, and equipment	2	27	5
Share-based compensation	1,056	1,069	1,119
Deferred income taxes	576	437	1,232
Excess tax benefits on share-based compensation	(145)	(356)	(1,219)
Changes in operating assets and liabilities:			
Receivables, net	(3, 768)	(1, 011)	562
Inventories	51	(1,309)	(1,845)
Prepaid expenses	(1,351)	(266)	26
Refundable income taxes	209	2,677	(436)
Accounts payable	(596)	(800)	2,317
Accrued expenses	(361)	(163)	(2,243)
Other liabilities	213	29	(181)
Other assets	(97)	325	(146)
Net cash provided by operating activities	**9,393**	**13,098**	**11,126**
Cash flows from investing activities:			
Additions to property, plant, and equipment	(7,293)	(16,321)	(13,436)
Proceeds from sale of property, plant, and equipment	14	53	112
Net cash used in investing activities	**(7,279)**	**(16,268)**	**(13,324)**
Cash flows from financing activities:			
Excess tax benefits on share-based compensation	145	356	1,219
Proceeds from the exercise of stock options, net of attestations	529	358	336
Principal repayment of long-term debt	(1,014)	(996)	(977)
Payment of statutory withholding for stock options exercised and restricted stock units vested	(219)	(209)	(831)
Repurchases of common stock	—	(587)	—
Payment of contingent note payable	—	—	(800)
Net cash used in financing activities	**(559)**	**(1,078)**	**(1,053)**
Net change in cash and cash equivalents	1,555	(4,248)	(3,251)
Cash and cash equivalents at beginning of year	29,804	34,052	37,303
Cash and cash equivalents at end of year	**$ 31,359**	**$ 29,804**	**$ 34,052**

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. The Company has evaluated all subsequent events through the date of this filing.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including allowance for doubtful accounts and the net realizable value of inventory, and 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, 2016, and 2015, 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 $17.6 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, 2016.

(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, 2016.

(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	20-40 years
Machinery & Equipment	7-15 years
Furniture, fixtures, computers, & software	3-7 years

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

(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 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, 2016, 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, macroeconomic 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. 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		
	2016	2015	2014
Share-based compensation expense	$ 1,056	$ 1,069	$ 1,119

The compensation expense for stock options granted during the three-year period ended December 31, 2016, was determined as the fair value of the options using the Black Scholes valuation model. The assumptions are noted as follows:

	Year Ended December 31		
	2016	2015	2014
Expected volatility	29.7%	31.5% to 32.3%	32.8% to 37.9%
Expected dividends	None	None	None
Risk-free interest rate	0.9%	1.0% to 1.2%	0.7% to 0.9%
Exercise price	$22.02	$19.97-$22.36	$22.55-$25.48
Expected term	5.0 years	5.0 years	3.8 to 5.0 years
Weighted-average grant-date fair value	$ 6.11	$ 6.04	$ 7.24

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

The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was approximately $318,000, $312,000 and $320,000 for the years ended December 31, 2016, 2015 and 2014, 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 $1.3 million, $1.3 million and $1.4 million were expensed in the years ended December 31, 2016, 2015 and 2014, 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. The Company did not repurchase any shares of common stock during the year ended December 31, 2016. 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 full retrospective or modified retrospective 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 2018, but allows the Company to adopt the standard one year earlier if it so chooses. The Company expects to adopt the standard in the first quarter of 2018 using the modified retrospective transition method. The Company is continuing to evaluate its revenue sources for potential impact. Based on the work completed to date, the Company expects that for a significant majority of our business, the recognition of revenue under the updated standard will occur at a point in time, which is consistent with current practice.

In February 2016, the FASB issued ASU No. 2016-02, Leases. 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.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards, forfeitures and classification on the statement of cash flows. The provisions of this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company will adopt the new standard in the first quarter of 2017. Although the impact of adopting this update to the Company's consolidated financial statements is not expected to have a material effect, the impact will depend on market factors and the timing and intrinsic value of future share-based compensation award vests and exercises. The Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures. Subsequent to adoption, the Company notes the potential for volatility in its effective tax rate as any windfall or shortfall tax benefits related to its share-based compensation plans will be recorded directly into results of operations.

Revisions

Certain revisions have been made to the 2015 Consolidated Balance Sheet and 2015 Consolidated Statement of Cash Flows to conform to the current year presentation relating to presentation of a reserve for uncertain tax positions. The impact on the 2015 Consolidated Balance Sheet was a decrease in the amount of $315,000 to both refundable income taxes and accrued expenses. The impact on the 2015 Consolidated Statement of Cash Flows (cash provided by operating activities) was an increase to the change in refundable income taxes of $315,000 and a decrease to the change in accrued expenses of $315,000. These revisions had no impact on previously reported net income and are deemed immaterial to the previously issued financial statements.

Certain revisions have been made to the 2015 Consolidated Balance Sheet, 2015 Consolidated Statement of Operations and 2015 Consolidated Statement of Stockholders' Equity to conform to the current year presentation relating to the presentation of common shares outstanding. The impact to the Consolidated Balance Sheet was a decrease of 29,559 in the number of common shares outstanding. The impact to the Statements of Operations was a decrease of approximately 13,000 shares in basic and diluted weighted average common shares outstanding. The impact to the Consolidated Statement of Stockholders' Equity was a decrease of approximately 30,000 in common shares outstanding (repurchase of common stock line). These revisions had no impact on previously reported net income, earnings per share, or cash flows and are deemed immaterial to the previously issued financial statements.

(2) Supplemental Cash Flow Information

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

	Year Ended December 31		
	2016	**2015**	**2014**
Interest	$ 66	$ 86	$ 103
Income taxes, net of refunds	$ 3,562	$ 1,459	$ 3,259

During the years ended December 31, 2016, 2015, and 2014, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock ("cashless" exercises) totaling approximately $166,000, $36,000 and $372,000, respectively.

(3) Receivables

Receivables consist of the following (in thousands):

	December 31	
	2016	**2015**
Accounts receivable—trade	$ 21,816	$ 17,980
Less allowance for doubtful receivables	(567)	(499)
Receivables, net	**$ 21,249**	**$ 17,481**

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 $126,000 and $16,000 for the years ended December 31, 2016, and 2015, respectively.

(4) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2016	**2015**
Raw materials	$ 7,111	$ 7,506
Work in process	1,354	1,192
Finished goods	5,686	5,504
Total Inventory	**$ 14,151**	**$ 14,202**

(5) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2016, and 2015 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, 2016	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2016	(429)	(449)	(1,791)	(2,669)
Net balance at December 31, 2016	**$ —**	**$ 63**	**$ 255**	**$ 318**
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**

Amortization expense related to intangible assets was approximately $318,000, $318,000 and $393,000, for the years ended December 31, 2016, 2015 and 2014, respectively. Future amortization for the years ending December 31 will be approximately (in thousands):

2017	318
Total	**$ 318**

(6) Property, Plant, and Equipment

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

	December 31	
	2016	2015
Land and improvements	$ 3,191	$ 3,191
Buildings and improvements	28,241	25,399
Leasehold improvements	2,759	2,839
Machinery & Equipment	54,633	51,016
Furniture, fixtures, computers, & software	6,419	6,498
Construction in progress–equipment	1,563	1,621
	$ 96,806	**$ 90,564**

Depreciation and amortization expense for the years ended December 31, 2016, 2015 and 2014, were approximately $5.3 million, $4.5 million and $4.0 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's $40 million credit facility matures on November 30, 2018.

As of December 31, 2016, the Company had no borrowings outstanding under the credit facility. Included in the credit facility were approximately $0.4 million in standby letters of credit drawable as a financial guarantee on worker's compensation insurance policies. As of December 31, 2016, the Company was in compliance with all covenants 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, 2016, approximately $5.0 million had been advanced on the loan, and the outstanding balance was approximately $856,000. 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	
	2016	2015
Equipment loans	$ 856	$ 1,870
Total long-term debt	**856**	**1,870**
Current Installments	(856)	(1,011)
Long-term debt, excluding current installments	**$ —**	**$ 859**

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

Year ending December 31:	
2017	856
	$ 856

(8) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2016	2015
Compensation	$ 2,144	$ 2,107
Benefits/self-insurance reserve	180	250
Paid time off	990	965
Commissions payable	260	319
Other	1,124	1,418
	$ 4,698	**$ 5,059**

(9) Income Taxes

The Company's income tax provision for the years ended December 31, 2016, 2015 and 2014 consists of the following (in thousands):

	Years Ended December 31		
	2016	**2015**	**2014**
Current:			
Federal	$ 3,120	$ 3,131	$ 2,638
State	651	580	336
	3,771	**3,711**	**2,974**
Deferred:			
Federal	546	508	1,262
State	30	(71)	(30)
	576	**437**	**1,232**
Total income tax provision	**$ 4,347**	**$ 4,148**	**$ 4,206**

At December 31, 2016, the Company had net operating loss carryforwards for federal income tax purposes of approximately $119,000, which are available to offset future taxable income and expire during the federal tax year ending December 31, 2019.

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	
	2016	**2015**
Deferred tax assets:		
Reserves	$ 531	$ 532
Inventory capitalization	427	407
Compensation programs	578	501
Retirement liability	19	27
Equity-based compensation	257	290
Net operating loss carryforwards	40	141
Deferred rent	7	10
Intangible assets	340	264
Total deferred tax assets:	**$ 2,199**	**$ 2,172**
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	$ (4,767)	$ (4,186)
Goodwill	(891)	(869)
Total deferred tax liabilities	**$ (5,658)**	**$ (5,055)**
Net long-term deferred tax liabilities	**$ (3,459)**	**$ (2,883)**

The amounts recorded as deferred tax assets as of December 31, 2016, and 2015, 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, 2016, 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		
	2016	**2015**	**2014**
Computed "expected" tax rate	34.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	3.7	2.3	1.1
Meals and entertainment	0.2	0.3	0.3
R&D credits	(0.6)	(0.8)	(0.7)
Domestic production deduction	(2.5)	(2.5)	(1.4)
Non-deductible ISO stock option expense	0.3	0.4	0.4
Unrecognized tax benefits	(0.1)	—	1.3
Other	0.3	1.6	0.8
Effective tax rate	**35.3%**	**35.3%**	**35.8%**

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan, which have been audited through 2004, income tax returns filed in Massachusetts, which have been audited through 2007, income tax returns filed in Florida, which have been audited through 2009 and income tax returns in Colorado, which have been audited through 2013. An audit for income tax returns filed in New Jersey for the years 2009, through 2012 is currently in progress. An audit for the Company's federal tax return for 2014 is currently in progress. Federal and state tax returns for the years 2013 through 2016 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	
	2016	**2015**
Gross UTB balance at beginning of fiscal year	$ 162	$ 230
Reductions for tax positions of prior years	(12)	(68)
Gross UTB balance at end of fiscal year	**$ 150**	**$ 162**

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2016, and 2015, is $150,000 and $162,000, respectively.

In addition, the total amount of accrued interest and penalties on uncertain tax positions at December 31, 2016, and 2015 is $153,000 and $153,000, respectively.

At December 31, 2016, 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 in 2017, as the examination is expected to close within the next 12 months.

(10) Net Income Per Share

Basic income per share is based upon the weighted average of 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		
	2016	**2015**	**2014**
Basic weighted average common shares outstanding during the year	7,190	7,102	7,028
Weighted average common equivalent shares due to stock options and restricted stock units	85	104	147
Diluted weighted average common shares outstanding during the year	**7,275**	**7,206**	**7,175**

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, 2016, 2015, and 2014, the number of stock awards excluded from the computation was 52,377, 72,495, and 53,651, 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, 2016, 1,197,034 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 46,065 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, 2016, 170,000 options have been granted, and 83,125 options are outstanding. At December 31, 2016, 936,182 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, 2016, 325,810 options have been granted, and 149,453 options are outstanding. For the year ended December 31, 2016, 4,764 shares of common stock were issued, and 131,554 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, 2015	**270,205**	**$ 15.40**	—	—
Granted	17,184	22.02	—	—
Exercised	(54,811)	24.57	—	—
Outstanding December 31, 2016	**232,578**	**$ 16.53**	**3.66**	**$ 2,074**
Exercisable at December 31, 2016	**210,078**	**$ 16.02**	**3.86**	**$ 1,981**
Vested and expected to vest at December 31, 2016	**232,578**	**$ 16.53**	**3.66**	**$ 2,074**

During the years ended December 31, 2016, 2015, and 2014, 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 $0.7 million, $1.3 million, and $3.4 million, respectively, and the total amount of consideration received from the exercise of these options was approximately $695,000, $394,000, and $709,000, 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, 2016, 6,514 shares (6,514 for options and zero for taxes) were surrendered at an average market price of $25.50. 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 years ended December 31, 2016, 2015, and 2014, the Company recognized compensation expense related to stock options granted to directors and employees of approximately $238,000, $282,000, and $354,000, respectively.

On February 22, 2016, 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 28, 2016. The Company has recorded compensation expense of $400,000 for the year ended December 31, 2016. Stock compensation expense of $400,000 was also recorded in both 2015 and 2014 for similar awards.

On June 9, 2016, the Company issued 4,764 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 $22.02 on June 9, 2016, the Company recorded compensation expense of approximately $105,000 associated with the stock issuance for the year ended December 31, 2016. The Company recorded compensation expense of approximately $105,000 and $122,000 for similar awards in 2015 and 2014, 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, 2016:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2015	**40,645**	**$ 19.67**
Awarded	17,822	21.66
Shares vested	(11,909)	20.94
Outstanding at December 31, 2016	**46,558**	**$ 20.05**

The Company recorded approximately $314,000, $274,000 and $237,000 in compensation expense related to these RSUs during the years ended December 31, 2016, 2015 and 2014, 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, 2016, 3,389 shares were redeemed for this purpose at an average market price of $22.82. During the years ended December 31, 2015, and 2014, 3,405 and 9,878 shares were redeemed for this purpose at an average market price of $23.15 and $25.88, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2016, vest (in thousands):

	Options	Common Stock	Restricted Stock Units	Total
2017	$ 44	$ —	$ 293	$ 337
2018	16	—	207	223
2019	—	—	110	110
2020	$ —	—	$ 23	$ 23
Total	**$ 60**	**$ —**	**$ 633**	**$ 693**

Tax benefits totaling approximately $145,000, $356,000, and $1,219,000 were recognized as additional paid-in capital during the years ended December 31, 2016, 2015, and 2014, 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, $4,000, and $23,000 for the years ended December 31, 2016, 2015, and 2014, respectively. The present value of the supplemental retirement obligation has been calculated using a 4.0% discount rate, and is included in other liabilities. Total projected future cash payments for the years ending December 31, 2017, 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 2021. 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, 2016, are as follows (in thousands):

Years Ending December 31	Operating Leases
2017	891
Total minimum lease payments (a)	**$ 891**

(a) Minimum payments have not been reduced by minimum sublease rentals of approximately $24,000 due in the future under non-cancelable subleases.

Rent expense amounted to approximately $0.8 million, $1.2 million, and $1.8 million in 2016, 2015, and 2014, 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 401(k) deferrals, as well as discretionary profit-sharing amounts determined by the Board of Directors to be funded by March 15 following each fiscal year. Contributions were approximately $740,000, $750,000 and $750,000 in 2016, 2015, and 2014, 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, 2016, and 2015, the balance of the deferred compensation liability totaled approximately $1.7 million and $1.5 million, respectively. The related assets, which are held in the form of a Company-owned, variable life insurance policy that names the Company as the beneficiary, are reported within other assets in the accompanying balance sheets, and are accounted for based on the underlying cash surrender values of the policies, and totaled approximately $1.8 million and $1.7 million as of December 31, 2016, and 2015, 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 the United States are not material. No customer comprised more than 10% of the Company's consolidated revenues for the year ended December 31, 2016. 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, 2016, 2015 and 2014 are as follows (in thousands):

Market	2016 Net Sales	%	2015 Net Sales	%	2014 Net Sales	%
Medical	$ 64,522	44.2%	$ 57,297	41.3%	$ 50,092	36.0%
Automotive	27,450	18.8%	26,879	19.4%	27,358	19.6%
Consumer	21,419	14.7%	17,274	12.4%	17,661	12.7%
Electronics	11,586	7.9%	13,218	9.5%	15,830	11.4%
Industrial	10,661	7.3%	11,028	7.9%	13,208	9.5%
Aerospace & Defense	10,494	7.2%	13,154	9.5%	15,158	10.9%
Net Sales	**$ 146,132**	**100.0%**	**$ 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):

2016	Q1	Q2	Q3	Q4
Net sales	$ 34,503	$ 37,902	$ 37,220	$ 36,507
Gross profit	7,727	10,295	8,452	8,176
Net income	1,075	2,735	2,669	1,491
Basic net income per share	0.15	0.38	0.37	0.21
Diluted net income per share	0.15	0.38	0.37	0.20

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

(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 are complete.

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 substantially complete.

The Company has incurred 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 were approximately $2.0 million. The Company expects annual cost savings of approximately $1.0 million as a result of these consolidations.

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 was complete at December 31, 2015.

The Company has recorded the following restructuring costs associated with the consolidations discussed above for the fiscal years ended December 31, 2016, and 2015 (in thousands):

	2016	2015			2014		
Restructuring Costs	**Massachusetts**	**Massachusetts**	**California**	**Total**	**Michigan**	**California**	**Total**
Employee severance	$ -	$ 178	$ 18	$ 196	$ 237	$ 10	$ 247
Relocation	420	1,138	66	1,204	356	501	857
Lease termination	-	356	-	356	-	-	-
Workforce training	-	-	-	-	373	-	373
Plant infrastructure	-	-	-	-	79	-	79
Total restructuring costs	**$ 420**	**$ 1,672**	**$ 84**	**$ 1,756**	**$ 1,045**	**$ 511**	**$ 1,556**

The 2016 costs were reclassified in the Consolidated Statement of Income as "Restructuring Costs" from Cost of Sales. The 2015 costs were reclassified in the Consolidated Statement of Income 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 Income 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

Daniel Croteau, who has been a member of the Company's Board of Directors since December 16, 2015, is the Chief Executive Officer of Vention Medical, Inc., a customer of the Company. Sales to Vention for the year ended December 31, 2016, were approximately $474,000. Open accounts receivable from Vention were approximately $23,000 at December 31, 2016.

(21) Material Overcharge Settlement

The Company was a participant in a class action lawsuit against a number of polyurethane foam suppliers ("Defendants") that recently reached settlement. The suit was filed to recover damages and obtain injunctive relief for Defendants' alleged violations of the federal antitrust laws with respect to the fixing of prices of polyurethane foam sold from January 1, 1999 through August 2010. The Company recorded a gain of approximately $2.1 million during the year ended December 31, 2016, which represents the full settlement amount received. The settlement amount is recorded as "Material overcharge settlement" in the operating income section of the Consolidated Statements of Income.

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 and supplier 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 and the timing associated with requalification of parts, 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, 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 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, and requalification or recertification of transferred 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, 2016. 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 Tuesday, June 6, 2017, at UFP Technologies, Inc., 100 Hale Street, Newburyport, MA 01950.

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, 2016, 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

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**
Former Chief Executive Officer
Vention Medical

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 & Development

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

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

d Directors **o Officers**

OPERATING PRINCIPLES

CUSTOMERS

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

ETHICS

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

EMPLOYEES

We are dedicated to providing a positive, challenging 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.

100 Hale Street, Newburyport, MA 01950
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