

UFP TECHNOLOGIES INC  
Form 10-K  
March 13, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to**

**Commission file number: 001-12648**

**UFP Technologies, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

**04-2314970**  
(I.R.S. Employer

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incorporation or organization)  
**172 East Main Street, Georgetown, MA USA**  
(Address of principal executive offices)

Identification No.)  
**01833-2107**  
(Zip Code)

**(978) 352-2200**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The NASDAQ Stock Market L.L.C.
Preferred Share Purchase Rights	The NASDAQ Stock Market L.L.C.

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of June 30, 2014, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$93,486,930, based on the closing price of \$24.09 on that date as reported on the NASDAQ Capital Market.

As of March 6, 2015, there were 7,075,836 shares of common stock, \$0.01 par value per share, of the registrant outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

<b>Document</b>	<b>Parts of this Form 10-K Into Which Incorporated</b>
Portions of the registrant's Proxy Statement for the 2015 Annual Meeting of Shareholders.	Part III

**PART I**

**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, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). 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, anticipated advantages relating to the Company's decisions to consolidate its Midwest, California and Northeast facilities and the expected cost savings and efficiencies associated therewith, anticipated advantages of maintaining fewer, larger plants, anticipated advantages the Company expects to realize from its investments and capital expenditures, including the development of and investments in its molded fiber product lines, anticipated advantages the Company expects to realize as a result of its new enterprise resource planning software system, expectations regarding the manufacturing capacity and efficiencies of the Company's new production equipment, statements about the Company's acquisition opportunities and strategies, its participation and growth in multiple markets, its business opportunities, the Company's growth potential and strategies for growth, anticipated revenues and the timing of such revenues, and any indication that the Company may be able to sustain or increase its sales or earnings. 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, risks associated with the implementation of new production equipment in a timely, cost-efficient manner, risks that any benefits from such new equipment may be delayed or not fully realized, or that the Company may be unable to fully utilize its expected production capacity, and risks and uncertainties associated with the identification of suitable acquisition candidates and the successful, efficient execution of acquisition transactions and integration of any such acquisition candidates. Accordingly, actual results may differ materially.

In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, expects, plans, anticipates, believes, estimates, projects, predicts, potential, and similar expressions intended to identify forward-looking statements. Our actual results may be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts, and projections, and may be materially better or worse than anticipated. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date of this Report. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this Report, in order to reflect changes in circumstances or expectations, or the occurrence of unanticipated events, except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed above and under Risk Factors set forth in Part I Item 1A of this Report, as well as the risks and uncertainties discussed elsewhere in this Report. We qualify all of our forward-looking statements by these cautionary statements. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

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

**ITEM 1. BUSINESS**

The Company 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. It converts these materials using laminating, molding, and fabricating manufacturing technologies. The Company's raw materials primarily consist of polyethylene and polyurethane foams, sheet plastics, pulp fiber, cross-linked polyethylene and reticulated polyurethane foams,



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fabric and foam laminates and natural fiber materials. The Company converts these materials to provide customers various solutions including automotive interior trim, medical device components, disposable wound care components, military uniform and gear components, athletic padding, air filtration, high-temperature insulation, abrasive nail files and other beauty aids, and cushion packaging for their products.

We were incorporated in the State of Delaware in 1993. The consolidated financial statements of the Company include the accounts and results of operations of UFP Technologies, Inc. and 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 inter-company balances and transactions have been eliminated in consolidation. The Company's assets are all located within the United States.

Wine Packs®, T-Tubes®, BioShell®, Pro-Sticks®, FlexShield® and Erasables® are our U.S. registered trademarks. Each trademark, trade name, or service mark of any other company appearing in this Report belongs to its respective holder.

### Available Information

Our Internet website address is <http://www.ufpt.com>. Through our website, we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or SEC. These SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy and information statements, and other information regarding the Company and other issuers that file electronically with the SEC. The SEC's Internet website address is <http://www.sec.gov>.

### Market Overview

Our applications are numerous and diverse. Examples include automotive interior trim, medical device components, disposable wound care components, military uniform and gear components, athletic padding, air filtration, high-temperature insulation, abrasive nail files and other beauty aids and cushion packaging. Cross-linked polyethylene foams have many of the same properties as traditional polyethylene foams, including lightweight, durability, resiliency, and flexibility, yet have many advantages over traditional foams, including the ability to be thermoformed (molded), availability in vibrant colors, a fine cell structure providing improved esthetics and lower abrasiveness, and enhanced resistance to chemicals and ultraviolet light. Certain grades of cross-linked foams can be radiation-sterilized and have been approved by the U.S. Food and Drug Administration for open wound skin contact.

Cross-linked foam can be combined with other materials to increase product applications and market applications. For example, cross-linked foams can be laminated to fabrics to produce lightweight, flexible, and durable insoles for athletic and walking shoes, gun holsters, backpacks, and other products for the leisure, athletic, and retail markets. The Company believes that, as a result of their many advantages, cross-linked foam and cross-linked foam laminated products are being used in a wide range of markets as substitutes for traditional rubber, leather, and other

product material alternatives.

Reticulated polyurethane foam is a versatile material typically used to make component products that involve filtration, liquid absorption, noise control, wiping, and padding. These foams feature high tensile, elongation, and tear characteristics; they are used extensively in the medical industry as they are easy to clean, impervious to microbial organisms, and can be made with fungicidal and bactericidal additives for added safety.

The interior cushion packaging market is characterized by three primary sectors: (1) custom fabricated or molded products for low-volume, high-fragility products; (2) molded or die-cut products for high-volume, industrial and consumer goods; and (3) loose fill and commodity packaging materials for products that do not require custom-designed packaging. Packaging solutions are used to contain, display, and/or protect their

contents during shipment, handling, storage, marketing, and use. The Company serves both the low-volume, high-fragility market and the high-volume industrial and consumer market, with a range of materials and manufacturing capabilities, but does not materially serve the commodity packaging market.

The low-volume, high-fragility market is generally characterized by annual production volumes of less than 50,000 pieces. Typical goods in this market include precision instruments, sensitive electronic components, and other high-value industrial products that are very sensitive to shock, vibration, and other damage that may occur during shipment and distribution. The principal materials used to package these goods include polyethylene and polyurethane foams, foam-in-place polyurethane, and molded expanded polystyrene. Polyurethane and polyethylene foams have high shock absorbency, high resiliency, and vibration-damping characteristics.

The higher-volume consumer packaging market is generally characterized by annual production volumes in excess of 50,000 pieces. Typical goods in this market include toys, electronics, stereo equipment, and small appliances. These goods generally do not require as high a level of shock and vibration protection as goods in the low-volume, high-fragility market. The principal materials used to package these goods include various molded, rigid, and foamed plastics, such as expanded polystyrene foam (EPS), vacuum-formed polystyrene (PS) and polyvinyl chloride (PVC), and corrugated die-cut inserts that generally are less protective and less expensive than resilient foams and molded fiber.

### **Regulatory Climate**

The packaging industry has been subject to user, industry, and legislative pressure to develop environmentally-responsible packaging alternatives that reduce, reuse, and recycle packaging materials. Government authorities have enacted legislation relating to source reduction, specific product bans, recycled content, recyclability requirements, and green marketing restrictions.

In order to provide packaging that complies with all regulations regardless of a product's destination, manufacturers seek packaging materials that meet both environmentally-related demands and performance specifications. Some packaging manufacturers have responded by reducing product volume and ultimate waste product disposal through reengineering traditional packaging solutions; adopting new manufacturing processes; participating in recovery and reuse systems for resilient materials that are inherently reusable; creating programs to recycle packaging following its useful life; and developing materials that use a high percentage of recycled content in their manufacture. Wherever feasible, the Company aims to employ one or more of these techniques to create environmentally-responsible packaging solutions.

### **Products**

The vast majority of the Company's products are custom designed and manufactured for its customers' needs.

The Company specializes in engineered products that use the Company's close tolerance manufacturing capabilities, its expertise in various foam and plastic materials and its ability to manufacture in clean room environments. The Company's products are sold primarily to customers in the medical, automotive, consumer, electronics, industrial and aerospace and defense industries. These products include automotive interior trim, medical device components, disposable wound care components, athletic padding, abrasive nail files and other beauty aids, air filtration, high-temperature insulation, and military uniform and gear components.



The Company believes it is one of the largest purchasers of cross-linked foam in the United States and as a result it has been able to establish important relationships with the relatively small number of suppliers of this product. Through its strong relationships with cross-linked foam suppliers, the Company believes it is able to offer customers a wide range of cross-linked foam products.

The Company benefits from its ability to custom-design its own proprietary manufacturing equipment in conjunction with its machinery suppliers. For example, the Company has custom-designed its own lamination machines, allowing it to achieve adhesive bonds between cross-linked foam and fabric and other materials that do not easily combine. These laminates typically command higher prices than traditional foam products.

The Company has developed a variety of standard products that are branded and, in some cases, trademarked and patented. These products include Wine Packs® (wine shipping solutions made from molded fiber);

T-Tubes® (tube and pipe insulation for clean room environments); BioShell® (pharmaceutical bag protection system); Pro-Sticks® (sanitary solution for nail care services); FlexShield® (medical device pouch for protecting small instruments and tools) and Erasables® (multi-purpose cleaning eraser).

The Company also designs, manufactures, and markets a broad range of packaging solutions primarily using polyethylene, polyurethane, cross-linked polyethylene foams, and rigid plastics. These solutions are custom-designed and fabricated or molded to provide protection for less durable, higher-value items, and are primarily sold to original equipment and component manufacturers. Examples of the Company's packaging solutions include foam inserts for protective shipping cases and end-cap packs for electronics. Markets for these products are typically characterized by lower to moderate volumes where performance, such as shock absorbency and vibration damping, is valued.

The Company's engineering personnel collaborate directly with customers to study and evaluate specific customer requirements. Based on the results of this evaluation, packaging solutions are engineered to customer specifications, using various types and densities of materials with the goal of providing the desired protection for the lowest cost and with the lowest physical package volume. The Company believes its engineering expertise, breadth of material offerings, and manufacturing capabilities have enabled it to provide unique solutions to achieve these goals.

The process for producing the Company's molded fiber packaging and vacuum-formed trays requires high volume production runs and rapid manufacturing turnaround times. Raw materials used in the manufacture of molded fiber are primarily recycled newspaper, and a variety of other grades of recycled paper and water. Raw materials used in vacuum-formed plastics include polystyrene (PS) and polyvinyl chloride (PVC). These products compete with expanded polystyrene (EPS) and manually assembled corrugated die-cut inserts.

We believe the Company's molded fiber products provide customers with packaging solutions that are more responsive to stringent environmental packaging regulations worldwide and meet the demands of environmentally-aware consumers, while simultaneously meeting customer cost and performance objectives.

Refer to Note 19, Segment Data, in the accompanying notes to the consolidated financial statements for further info on our products and markets.

## **Marketing and Sales**

The Company markets to the target industries it serves by promoting specific solutions, materials, and manufacturing capabilities and services. The Company is marketed through websites, online advertising and directories, press releases, and trade shows and expositions. Its relationships with key material suppliers are also an important part of its marketing and sales efforts.

The Company markets and sells its products in the United States principally through direct regional sales forces comprised of skilled engineers. The Company also uses independent manufacturer representatives to sell its products. The Company's sales engineers collaborate with customers and in-house design and manufacturing experts to develop custom-engineered solutions on a cost-effective basis. The Company markets a line of products to the health and beauty industry, primarily through distributors.

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No one customer's sales exceeded 10% of total sales for the year ended December 31, 2014. Seasonality is not a major factor in the Company's sales. See our consolidated financial statements contained in Part IV, Item 15, of this Report for net sales by market information.

### **Working Capital**

The Company funds its business operations through a combination of available cash and cash equivalents, and cash generated from operations. In addition, the Company's revolving credit facility is available for additional working capital needs.

### **Manufacturing**

The Company's manufacturing operations consist primarily of cutting, routing, molding, vacuum-forming, laminating, and assembling. For custom-molded foam products, the Company's skilled engineering personnel

analyze specific customer requirements to design and build prototype products to determine product functionality. Upon customer approval, prototypes are converted to final designs for commercial production runs. Molded cross-linked foam products are produced in a thermoforming process using heat, pressure, and precision metal tooling.

Cushion foam packaging products that do not utilize cross-linked foam are fabricated by cutting shapes from blocks of foam, using specialized cutting tools, routers, water jets, and hot wire equipment, and assembling these shapes into the final product using a variety of foam welding or gluing techniques. Products can be used on a stand-alone basis or bonded to another foam product or other material such as a corrugated medium.

Laminated products are produced through a process whereby the foam medium is heated to the melting point. The heated foam is then typically bonded to a non-foam material through the application of mechanical pressure.

Molded fiber products are manufactured by vacuum-forming a pulp of recycled or virgin paper materials onto custom-engineered molds. With the application of vacuum and air, the molded parts are pressed and transferred to an in-line dryer, from which they exit ready for packing or subsequent value-added operations.

The Company does not manufacture any of the raw materials used in its products. With the exception of certain grades of cross-linked foam and technical polyurethane foams, these raw materials are available from multiple supply sources. Although the Company relies upon a limited number of suppliers for cross-linked and technical polyurethane foams, the Company's relationships with such suppliers are good, and the Company expects that these suppliers will be able to meet its requirements for these foams. Any delay or interruption in the supply of raw materials could have a material adverse effect on the Company's business.

## **Research and Development**

The Company's engineering personnel continuously explore design and manufacturing techniques, as well as new innovative materials to meet the unique demands and specifications of its customers. Because the Company's products tend to have relatively short life cycles, research and development is an integral part of the Company's ongoing cost structure. Our research and development expenses were approximately \$1.2 million, \$1.2 million and \$1.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

## **Competition**

The foam and plastics converting industry is highly competitive. While there are several national companies that convert foam and plastics, the Company's primary competition has been from smaller independent regional manufacturing companies. These companies generally market their products in specific geographic areas from neighboring facilities. In addition, the Company's foam and fiber packaging products compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The Company's custom engineered products face competition primarily from smaller companies that typically concentrate on production of products for specific industries. The Company believes its access to a wide variety of materials, its engineering expertise, its ability to combine foams with other materials such as plastics and laminates, and its ability to manufacture products in a clean room environment, will enable it to continue to compete effectively in the engineered products market.

The Company believes its customers typically select vendors based on price, product performance, product reliability, and customer service. The Company believes it is able to compete effectively with respect to these factors.

**Patents and Other Proprietary Rights**

The Company relies upon trade secrets, patents, and trademarks to protect its technology and proprietary rights. The Company believes the improvement of existing products, reliance upon trade secrets and unpatented proprietary know-how, and the development of new products are generally as important as patent protection in establishing and maintaining a competitive advantage. Nevertheless, the Company has obtained patents and may continue to make efforts to obtain patents, when available, although there can be no

assurance that any patent obtained will provide substantial protection or be of commercial benefit to the Company, or that its validity will be upheld if challenged.

The Company has a total of 21 active patents relating to technologies including foam, packaging, tool control technologies, automotive superforming processes and to certain nail file technologies. The Company also has patent applications in process. There can be no assurance that any patent or patent application will provide significant protection for the Company's products and technology, or will not be challenged or circumvented by others. The expiration dates for the Company's patents range from 2015 through 2029.

### **Environmental Considerations**

In addition to offering molded fiber packaging products made from recycled paper derived primarily from post-consumer newspaper waste, the Company actively promotes its philosophy of reducing product volume and resulting post-user product waste. The Company designs products to provide optimum performance with minimum material. In addition, the Company bales and disposes of certain of its urethane foam scrap for use in the carpeting industry. The Company is aware of public support for environmentally-responsible packaging and other products. Future government action may impose restrictions affecting the industry in which the Company operates. There can be no assurance that any such action will not adversely impact the Company's products and business.

### **Backlog**

The Company's backlog, as of February 7, 2015 and February 8, 2014, totaled approximately \$38.3 million and \$34.8 million, respectively. The backlog consists of purchase orders for which a delivery schedule within the next twelve months has been specified by customers. Orders included in the backlog may be canceled or rescheduled by customers without significant penalty. The backlog as of any particular date should not be relied upon as indicative of the Company's revenues for any period.

### **Employees**

As of January 24, 2015, the Company had a total of 658 full-time employees (as compared to 681 full-time employees as of January 25, 2014). The Company is not a party to any collective bargaining agreements. The Company considers its employee relations to be good.

## **ITEM 1A. RISK FACTORS**

You should carefully consider the risks described below and the other information in this Report before deciding to invest in shares of our common stock. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer. In that event, the market price of our common stock could decline and you could lose all or part of

your investment.

**We depend on a small number of customers for a large percentage of our revenues. The loss of any such customer, a reduction in sales to any such customer, or the decline in the financial condition of any such customer could have a material adverse effect on our business, financial condition, and results of operations.**

A limited number of customers typically represent a significant percentage of our revenues in any given year. Our top ten customers represented approximately 24.2%, 27.6% and 26.6% of our total revenues in 2014, 2013 and 2012, respectively. No one customer's sales exceeded 10% of total sales for the year ended December 31, 2014. The loss of a significant portion of our expected future sales to any of our large customers would have a material adverse effect on our business, financial condition, and results of operations. Likewise, a material adverse change in the financial condition of any of these customers could have a material adverse effect on our ability to collect accounts receivable from any such customer.

**Our business could be harmed if our products contain undetected errors or defects or do not meet applicable specifications.**

We are continuously developing new products and improving our existing products. Our existing and newly introduced products can contain undetected errors or defects. In addition, these products may not meet their performance specifications under all conditions or for all applications. If, despite internal testing, and testing by customers, any of our products contain errors or defects or fail to meet applicable specifications, then we may be required to enhance or improve those products or technologies. We may not be able to do so on a timely basis, if at all, and may only be able to do so at considerable expense. If a particular error or defect is repeated throughout our mass production process, the cost of repairing such defect may be highly disproportionate to the original cost of the product or component. In addition, any significant errors, defects, or other performance failures could render our existing and/or future products unreliable or ineffective and could lead to decreased confidence in our products, adverse customer reaction, negative publicity, mandatory or voluntary recalls, or legal claims, the occurrence of any of which could have a material adverse effect upon our business, financial condition and results of operations.

Further, if our products are defectively designed, manufactured or labeled, contain defective components or are misused, we may become subject to costly litigation by our customers. Product liability claims could divert management's attention from our core business, be expensive to defend and result in sizable damage awards against us.

**New technologies could result in the development of new products by our competitors and a decrease in demand for our products, which could adversely affect our business, financial condition and results of operations.**

Our failure to develop new technologies, or anticipate or react to changes in existing technologies, could result in a decrease in our sales and a loss of market share to our competitors. Our financial performance depends on our ability to design, develop and manufacture new products and product enhancements on a timely and cost-effective basis. We may not be able to successfully identify new product opportunities or develop and bring new products to market in a timely and cost-effective manner.

Products or technologies developed by other companies may render our products or technologies obsolete or noncompetitive. Our failure to identify or capitalize on any fundamental shifts in technologies, relative to our competitors, could have a material adverse effect on our competitive position within our industry and harm our relationships with our customers.

**If we fail to comply with specific provisions in our customer contracts or with government contracting regulations, our business could be adversely affected.**

Our customer contracts, particularly with respect to contracts for which the government is a direct or indirect customer, may include unique and specialized requirements. Failure to comply with the specific provisions in our customer contracts, or any violation of government contracting regulations, could result in termination of the contracts, increased costs to us, suspension of payments, imposition of fines, and suspension from future government contracting. Further, any negative publicity related to our failure to comply with the provisions in our customer contracts could have a material adverse effect on our business, financial condition, or results of operations.

**We may experience unexpected problems and expenses associated with our planned consolidation of operations and facilities that could materially harm our business and prospects.**



We continually review our operations and facilities in an effort to reduce costs and increase efficiencies. To that end, we recently completed consolidating our Glendale Heights, Illinois plant into our Grand Rapids, Michigan facility and the consolidation of our Costa Mesa, California plant into our Rancho Dominguez, California facility is substantially complete. Uncertainty is inherent within the consolidation process, and unforeseen circumstances, costs and expenses could offset the anticipated benefits, disrupt operations, including the timely delivery of products to customers, and impact product quality, which could lead to manufacturing inefficiencies and materially harm our business and prospects. In addition, we may fail to retain key employees who possess specific knowledge or expertise and who we depend upon for the timely and successful transition, we may not be able to attract a sufficient number of skilled workers at the new locations

to handle the additional production and other demands, and the relocation may absorb significant management and key employee attention and resources. If any of these risks materialize, our business, results of operations, financial condition and prospects may be adversely affected.

**We may pursue acquisitions or other strategic relationships that involve inherent risks, any of which may cause us to not realize anticipated benefits.**

Our business strategy includes the potential acquisition of businesses and other business combinations that we expect will complement and expand our business. In addition, we may also pursue other strategic relationships or opportunities. We may not be able to successfully identify suitable acquisition or other strategic opportunities or complete any particular acquisition, combination, or other transaction on acceptable terms. Our identification of suitable acquisition candidates and strategic opportunities involves risks inherent in assessing the values, strengths, weaknesses, risks and profitability of these opportunities including their effects on our business, diversion of our management's attention and risks associated with unanticipated problems or unforeseen liabilities. If we are successful in pursuing future acquisitions or strategic opportunities, we may be required to expend significant funds, incur additional debt, or issue additional securities, which may materially and adversely affect our results of operations and be dilutive to our stockholders. If we spend significant funds or incur additional debt, our ability to obtain financing for working capital or other purposes could decline and we may be more vulnerable to economic downturns and competitive pressures. In addition, we cannot guarantee that we will be able to finance additional acquisitions or that we will realize any anticipated benefits from acquisitions or other strategic opportunities that we complete. Should we successfully acquire another business, the process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of our existing business. Our failure to identify suitable acquisition or other strategic opportunities may restrict our ability to grow our business.

**Failure to retain key personnel could impair our ability to execute our business strategy.**

The continuing service of our executive officers and essential engineering, technical and management personnel, together with our ability to attract and retain such personnel, is an important factor in our continuing ability to execute our strategy. There is substantial competition to attract such employees, and the loss of any such key employees could have a material adverse effect on our business and operating results. The same could be true if we were to experience a high turnover rate among engineering and technical personnel and we were unable to replace them.

**We operate in highly competitive industries and we may be unable to compete successfully, which could materially adversely affect our business, financial condition and results of operations.**

We face intense competition in all markets and in each area of our business. Our primary competition for our products is from smaller, independent, regional manufacturing companies. Our current competitors may increase their participation in, or new competitors may enter into, the markets in which we compete. In addition, our suppliers may acquire or develop the capability and desire to compete with us. If our suppliers choose to expand their own operations, through acquisitions or otherwise, and begin manufacturing and selling products directly to our customers, it could reduce our sales volume and overall profitability. If we are unable to compete successfully with new or existing competitors, it could have a material adverse effect on our business, financial condition and results of operations.

Further, technological innovation by any of our existing competitors, or new competitors entering any of the markets in which we do business, could put us at a competitive disadvantage and could cause us to lose market share. Increased competition for the sales of our products could result in price reductions, reduced margins and loss of market share, which could materially adversely affect our prospects, business, financial

condition and results of operations.

**Our markets are cyclical, which may result in fluctuations in our results of operations.**

Demand for our products, especially the aerospace and defense market, is cyclical. Downturns in economic conditions typically have an adverse effect on cyclical industries due to decreased demand for products. We seek to reduce our exposure to industry downturns and cyclicity by marketing our products to diversified and

varied markets. However, we may experience substantial period-to-period fluctuations in our results of operations due to the cyclical nature of demand for our products in the markets in which we compete.

**Our implementation of new enterprise resource planning (ERP) systems could result in problems that could negatively impact our business.**

We are currently implementing an ERP system that supports substantially all of our operating and financial functions. We could experience problems in connection with such implementation, including compatibility issues, training requirements, higher than expected implementation costs and other integration challenges and delays. A significant implementation problem, if encountered, could negatively impact our business by disrupting our operations. Additionally, a significant problem with the implementation, integration with other systems or ongoing management of an ERP system and related systems could have an adverse effect on our ability to generate and interpret accurate management and financial reports and other information on a timely basis, which could have a material adverse effect on our financial reporting system and internal controls and adversely affect our ability to manage our business or comply with various regulations.

**The cost of raw materials that we use to manufacture our products, particularly petroleum and petroleum-based raw materials, are subject to escalation and could increase, which may materially adversely affect our business, financial condition and results of operations.**

The cost of raw materials, including petroleum and petroleum-based raw materials such as resins, used in the production of our products, represents a significant portion of our direct manufacturing costs. Any fluctuations in the price of petroleum, or any other material used in the production of our products, may have a material adverse effect on our business, financial condition, and results of operations. Such price increases could reduce demand for our products. If we are not able to buy raw materials at fixed prices, or pass on price increases to our customers, we may lose orders or enter into orders with less favorable terms, either of which could have a material adverse effect on our business, financial condition, and results of operations.

**Security breaches and other disruptions could compromise our information, expose us to liability and harm our reputation and business.**

In the ordinary course of our business we collect and store sensitive data, including intellectual property, personal information, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees in our data centers and on our networks. The secure maintenance and transmission of this information is critical to our operations and business strategy. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential information. Computer hackers may attempt to penetrate our computer systems and, if successful, misappropriate personal or confidential business information. In addition, an associate, contractor, or other third-party with whom we do business may attempt to circumvent our security measures in order to obtain such information, and may purposefully or inadvertently cause a breach involving such information. Any such compromise of our data security and access, public disclosure, or loss of personal or confidential business information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations, damage our reputation and customers' willingness to transact business with us, and subject us to additional costs and liabilities which could adversely affect our business.

**We may be unable to protect our proprietary technology from infringement.**

We rely on a combination of patents, trademarks, and unpatented proprietary know-how and trade secrets to establish and protect our intellectual property rights. We enter into confidentiality agreements with suppliers, customers, employees, consultants and potential acquisition candidates as necessary to protect our know-how, trade secrets and other proprietary information. However, these measures and our patents and trademarks may not afford complete protection of our intellectual property, and it is possible that third parties may copy or otherwise obtain and use our proprietary information and technology without authorization or otherwise infringe on our intellectual property rights. We cannot assure that our competitors will not independently develop equivalent or superior know-how, trade secrets or production methods. Significant impairment of our intellectual property rights could harm our business or our ability to compete. For example, if we are unable to maintain the proprietary nature of our technologies, our profit margins could be reduced as

competitors could more easily imitate our products, possibly resulting in lower prices or lost sales for certain products. In such a case, our business, financial condition and results of operations may be materially adversely affected.

**Fluctuations in the supply of components and raw materials we use in manufacturing our products could cause production delays or reductions in the number of products we manufacture, which could materially adversely affect our business, financial condition and results of operations.**

Our business is subject to the risk of periodic shortages of raw materials. We purchase raw materials pursuant to purchase orders placed from time to time in the ordinary course of business. Failure or delay by such suppliers in supplying us necessary raw materials could adversely affect our ability to manufacture and deliver products on a timely and competitive basis.

While we believe that we may, in certain circumstances, secure alternative sources of these materials, we may incur substantial delays and significant expense in doing so, the quality and reliability of alternative sources may not be the same and our operating results may be materially adversely affected. Alternative suppliers might charge significantly higher prices for materials than we currently pay. Under such circumstances, the disruption to our business could have a material adverse impact on our customer relationships, business, financial condition, and results of operations.

In addition, we are dependent on a relatively small number of suppliers for cross-linked foam and technical polyurethane foams. While we believe that we have developed strong relationships with these suppliers, any failure or delay by such suppliers in supplying us these necessary products could adversely affect our ability to manufacture and deliver products on a timely and competitive basis.

**We are subject to a variety of federal, state and local laws and regulations, including health and safety laws and regulations, and the cost of complying, or our failure to comply, with such requirements could materially adversely affect our business, financial condition and results of operations.**

We are subject to a variety of federal, state and local laws and regulations, including health and safety laws and regulations. The risks of substantial costs and liabilities related to compliance with these laws and regulations are an inherent part of our business. Despite our intention to comply with these laws and regulations, we cannot guarantee that we will at all times comply with all such requirements. Compliance with health and safety legislation and other regulatory requirements may prove to be more limiting and costly than we anticipate and may also increase substantially in future years. If we violate, or fail to comply with these requirements, we could be fined or otherwise sanctioned by regulators. In addition, these requirements are complex, change frequently and may become more stringent over time, which could materially adversely affect our business, financial condition and results of operations.

**Our products could infringe the intellectual property rights of others, which may lead to litigation that could itself be costly, result in the payment of substantial damages or royalties, and prevent us from using technology that is essential to our products.**

We cannot guarantee that our products, manufacturing processes or other methods do not infringe the patents or other intellectual property rights of third parties. Infringement and other intellectual property claims and proceedings brought against us, whether successful or not, could result in substantial costs and harm our reputation. Such claims and proceedings can also distract and divert our management and key personnel from

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other tasks important to the success of our business. In addition, intellectual property litigation or claims could force us to do one or more of the following:

- cease selling or using any of our products that incorporate the asserted intellectual property, which would adversely affect our revenues;
- pay substantial damages for past use of the asserted intellectual property;
- obtain a license from the holder of the asserted intellectual property, which license may not be available on reasonable terms, if at all; and/or
- redesign or rename, in the case of trademark claims, our products to avoid infringing the intellectual property rights of third parties, which may be costly and time-consuming, even if possible.

In the event of an adverse determination in an intellectual property suit or proceeding, or our failure to license essential technology, our sales could be harmed and our costs could increase, which could materially adversely affect our business, financial condition and results of operations.

**We may lose business if our customers shift their manufacturing offshore.**

Historically, geography has been a large factor in the packaging business. Manufacturing and other companies shipping products typically buy packaging from companies that are relatively close to their manufacturing facilities to increase shipping efficiency and decrease costs. As many U.S. companies move their manufacturing operations overseas, particularly to the Far East and Mexico, the associated packaging business often follows. We have lost customers in the past and may lose customers again in the future as a result of customers moving their manufacturing facilities offshore, then hiring our competitors that operate packaging-production facilities perceived to be more territorially advantageous. As a result, our sales may suffer, which could have a material adverse effect upon our business, financial condition and results of operations.

**Reductions in the availability of energy supplies or an increase in energy costs may increase our operating costs.**

We use electricity and natural gas at our manufacturing facilities to operate our equipment. Over the past several years, prices for electricity and natural gas have fluctuated significantly. An outbreak or escalation of hostilities between the United States and any foreign power, or a natural disaster, could result in a real or perceived shortage of petroleum and/or natural gas, which could result in an increase in the cost of electricity or energy generally as well as an increase in the cost of our raw materials, of which many are petroleum-based. In addition, increased energy costs negatively impact our freight costs due to higher fuel prices. Future limitations on the availability or consumption of petroleum products and/or an increase in energy costs, particularly electricity for plant operations, could have a material adverse effect upon our business, financial condition and results of operations.

**As a public company, we need to comply with the reporting obligations of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, and the Dodd-Frank Act of 2010. If we fail to comply with the reporting obligations of these laws or if we fail to maintain adequate internal controls over financial reporting, our business, financial condition, and results of operations and investors' confidence in us, could be materially and adversely affected.**

As a public company, we are required to comply with the periodic reporting obligations of the Exchange Act, including preparing annual reports, quarterly reports and current reports. We are also subject to certain of the provisions of the Sarbanes-Oxley and Dodd-Frank Acts which, among other things, require enhanced disclosure of business, financial, compensation and governance information. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws, expose us to lawsuits, and restrict our ability to access financing. We may identify areas requiring improvement with respect to our internal control over financial reporting, and we may be required to design enhanced processes and controls to address issues identified. This could result in significant delays and cost to us and require us to divert substantial resources, including management time, from other activities. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud.

**Restrictions in our credit facilities may limit our business and financial activities, including our ability to obtain additional capital in the future.**



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In December 2013, we entered into a Credit Agreement with Bank of America, N.A., which provides for a \$40 million revolving credit facility. This Credit Agreement contains covenants imposing various restrictions on our business and financial activities. These restrictions may affect our ability to operate our business and undertake certain financial activities and may limit our ability to take advantage of potential business or financial opportunities as they arise. The restrictions these covenants place on us include limitations on our ability to incur liens, incur indebtedness, make investments, dissolve or merge or consolidate with or into another entity, dispose of certain property, and make restricted payments. The Credit Agreement also requires us to meet certain financial ratios, including a minimum fixed-charge coverage ratio and a maximum total

funded debt to EBITDA ratio. The breach of any of these covenants or restrictions could result in a default under the Credit Agreement, which could have a material adverse impact to our business, financial condition and results of operation.

We are also exposed to the risk of increasing interest rates as our revolving credit facility is at a variable interest rate. Any material changes in interest rates could result in higher interest expense and related payments for us.

**Members of our board of directors and management who also are our stockholders exert significant influence over us.**

Based on information made available to us, we believe that our executive officers, directors and their affiliates collectively owned approximately 15.6% of our outstanding shares of common stock as of March 6, 2015. As a result, those stockholders may, if acting together, control or exert substantial influence over actions requiring stockholders' approval, including elections of our directors, amendments to our certificate of incorporation, mergers, sales of assets or other business acquisitions or dispositions.

**Provisions of our corporate charter documents, Delaware law, and our stockholder rights plan may dissuade potential acquirers, prevent the replacement or removal of our current management and may thereby affect the price of our common stock.**

The board of directors has the authority to issue up to 1,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges, and restrictions, including voting rights of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible financings, acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. We have no present plans to issue shares of preferred stock.

We also have a stockholder rights plan designed to protect and enhance the value of our outstanding equity interests in the event of an unsolicited attempt to acquire us in a manner or on terms not approved by the board of directors and that would prevent stockholders from realizing the full value of their shares of our common stock. Its purposes are to deter those takeover attempts that the board believes are undesirable, to give the board more time to evaluate takeover proposals and consider alternatives, and to increase the board's negotiating position to enhance value in the event of a takeover. The rights issued pursuant to the plan are not intended to prevent all takeovers of our Company. However, the rights may have the effect of rendering more difficult or discouraging our acquisition. The rights may cause substantial dilution to a person or group that attempts to acquire us on terms or in a manner not approved by the board of directors, except pursuant to an offer conditioned upon the negotiation, purchase, or redemption of the rights with respect to which the condition is satisfied.

Further, certain provisions of our certificate of incorporation, bylaws, and Delaware law could delay or make more difficult a merger, tender offer or proxy contest involving us or, for a third party to acquire a majority of our outstanding voting common stock. These include provisions that classify our board of directors, limit the ability of stockholders to take action by written consent, call special meetings, remove a director for cause, amend the bylaws, or approve a merger with another company. In addition, our bylaws set forth advance notice procedures for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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We are subject to the provisions of Section 203 of the Delaware General Corporation Law which prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an interested stockholder is a person who, either alone or together with affiliates and associates, owns (or within the past three years did own) 15% or more of the corporation's voting stock.

**New regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.**

In August 2012, the SEC adopted a new rule requiring disclosures of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured by public companies. The conflict minerals rule requires companies annually to disclose and report whether or not such minerals originate from the Democratic Republic of Congo and other specified countries. The new rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tantalum, tin, gold and tungsten. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. Since our supply chain is complex, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. In addition, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

#### **ITEM 2. PROPERTIES**

The following table presents certain information relating to each of the Company's properties:

<b>Location</b>	<b>Square Feet</b>	<b>Lease Expiration Date</b>	<b>Principal Use</b>
Georgetown, Massachusetts	57,600	Company Owned	Headquarters, fabrication, molding, test lab, clean room and engineering
Newburyport, Massachusetts	137,000	Company Owned (a)	Headquarters, fabrication, molding, test lab, clean room and engineering
Haverhill, Massachusetts	48,772	02/28/2018	Flame lamination
Byfield, Massachusetts	5,877	08/31/2017	Office space
Atlanta, Georgia	49,372	04/30/2017	Molding and engineering
Huntsville, Alabama	9,000	06/30/2016	Engineering, design and fabrication
Grand Rapids, Michigan	255,260	Company Owned	Fabrication, molding and engineering
Ventura, California	750	10/31/2015 (b)	Office space
Rancho Dominguez, California	56,000	11/14/2017	Fabrication, molding and engineering
Denver, Colorado	18,270	Company Owned	Fabrication, molding and engineering
Denver, Colorado	28,383	Company Owned	Fabrication, molding and engineering
Raritan, New Jersey	67,125	02/28/2018	Fabrication, molding, test lab, clean-room and engineering
Kissimmee, Florida	49,400	Company Owned	Fabrication, molding, test lab and engineering
El Paso, Texas	48,325	01/30/2017	Warehousing and fabrication
El Paso, Texas	127,730	Company Owned	Warehousing, fabrication and molded fiber operations
Clinton, Iowa	60,000	Company Owned	Molded fiber operations



Location	Square Feet	Lease Expiration Date	Principal Use
Clinton, Iowa	62,000	Company Owned	Molded fiber operations

- (a) The Company purchased this facility in January 2015 (see Note 22 to the consolidated financial statements for further details).
- (b) The Company intends to renew this lease at commercially reasonable terms prior to the Lease Expiration Date.

**ITEM 3. LEGAL PROCEEDINGS**

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.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

**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, 2013 to December 31, 2014:

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

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

**Number of Stockholders**

As of March 6, 2015, there were 77 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 2013 or 2014. 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.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table summarizes our consolidated financial data for the periods presented. You should read the following financial information together with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those financial statements appearing elsewhere in this Report. The selected statements of operations data for the fiscal years ended December 31, 2014, 2013 and 2012, and the selected balance sheet data as of December 31, 2014 and 2013, are derived from our audited consolidated financial statements, which are included elsewhere in this Report. The selected statements of operations data for the years ended December 31, 2011 and 2010, and the balance sheet data at December 31, 2011 and 2010 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)				
	2014	2013	2012	2011	2010
Consolidated statement of operations data					
Net sales	\$ 139,307	\$ 139,223	\$ 130,962	\$ 127,244	\$ 120,766
Gross profit	36,880	41,014	38,319	36,245	34,616
Operating income	11,561	17,398	16,666	15,716	14,392
Net income	7,559	11,276	10,895	10,346	9,247
Diluted earnings per share	1.05	1.59	1.55	1.48	1.37
Weighted average number of diluted shares outstanding	7,175	7,105	7,028	6,999	6,749

	As of December 31				
	(in thousands)				
	2014	2013	2012	2011	2010
Consolidated balance sheet data					
Working capital	\$ 56,800	\$ 56,398	\$ 51,263	\$ 48,575	\$ 38,267
Total assets	113,690	104,908	98,617	79,721	69,478
Short-term debt obligations	993	976	1,550	581	654
Long-term debt, excluding current portion	1,873	2,867	8,314	5,639	6,847
Total liabilities	18,698	19,318	25,357	17,736	19,251
Stockholders' equity	94,992	85,590	73,260	61,985	50,226



**ITEM 7.  
OPERATIONS**

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

**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.

During the third quarter of 2014, in conjunction with the consolidation of operations in Michigan and the consolidation of the Company's sales force, the Company determined that the existing segment aggregation of Component Products and Packaging was no longer consistent with how the business is structured and reviewed by the Chief Operating Decision Maker (the CODM). This is primarily because the Company has numerous manufacturing processes that are duplicated through its plants allowing it to move workload based on available capacity and proximity to customers. The CODM evaluates consolidated financial information to manage the business. As a result, the Company has determined that it consists of a single operating and reportable segment.

In 2014, the Company undertook several initiatives to streamline operations that had a material impact on operating results. It consolidated plants in the Midwest and in California and relocated its operations in El Paso, Texas to a newly acquired building. In addition to one-time costs to physically relocate equipment, pay severance to employees choosing not to relocate and restore vacated buildings to their original condition, the Company had manufacturing inefficiencies associated with requalifying parts for customers and training new employees. The company estimates these costs collectively to be slightly in excess of \$2.6 million.

In January 2015, the Company acquired a 137,000 square foot commercial building on 27 acres in Newburyport, Massachusetts for approximately \$6.8 million. The Company anticipates that it will further expand the property and consolidate portions of its Northeast operations into its new property in multiple phases between 2015 and 2017. It expects to incur further costs with the consolidation but also expects the efficiency savings to be significant. It has not yet estimated either the one-time costs or efficiency gains in a potential consolidation of operations.

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

## Results of Operations

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

	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of sales	73.5%	70.5%	70.7%
Gross profit	26.5%	29.5%	29.3%
Selling, general, and administrative expenses	17.1%	17.0%	16.5%
Restructuring costs	1.1%	0.0%	0.0%
(Gain) loss on sale of fixed assets	0.0%	0.0%	0.0%
Operating income	8.3%	12.5%	12.8%
Total other (income) expenses, net	-0.1%	0.2%	0.1%
Income before taxes	8.4%	12.3%	12.7%
Income tax expense	3.0%	4.2%	4.4%
Net income from consolidated operations	5.4%	8.1%	8.3%

### 2014 Compared to 2013

*Sales*

Net sales increased 0.1% to \$139.3 million for the year ended December 31, 2014, from net sales of \$139.2 million in 2013, primarily due to increases in sales in the aerospace and defense and medical markets of approximately 10% and 2%, respectively, partially offset by sales decline in the automotive market of approximately 6%. The increase in sales to the aerospace and defense market was largely due to an increase in sales of approximately \$2.1 million for a low-margin contract manufacturing program. Absent this increase, sales to the aerospace and defense market declined approximately 6% due primarily to cuts in government

spending. The decline in sales to the automotive market was primarily due to the phase-out of an interior trim program coupled with soft demand for parts for a specific model of car that has had weak demand from consumers.

#### *Gross Profit*

Gross profit as a percentage of sales ( *Gross Margin* ) declined to 26.5% for the year ended December 31, 2014, from 29.5% in 2013. As a percentage of sales, material and direct labor collectively increased approximately 1.5% and overhead as a percentage of sales increased approximately 1.5% or approximately \$2 million in 2014. The increase in material and direct labor was a result of manufacturing inefficiencies incurred as a result of plant moves in the Midwest, California and Texas as well as an increase in sales for a low-margin contract manufacturing military program. The increase in overhead was primarily due to increased employee health care costs of approximately \$600,000 due to a higher than typical frequency of large claims, increased compensation and benefits of approximately \$450,000 due to normal inflationary increases as well as higher overtime incurred as a result of the plant moves, increased plant and equipment maintenance costs of approximately \$290,000 due to the various plant moves and higher depreciation of approximately \$220,000 due largely to new molded fiber equipment.

#### *Selling, General and Administrative Expenses*

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

#### *Restructuring Costs*

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

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

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



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

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

### *Interest Expense*

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

### *Income Taxes*

The Company recorded income tax expense as a percentage of income before income tax expense, of 35.8% and 34.4% for the years ended December 31, 2014 and 2013, respectively. The increase in the effective tax rate for the year ended December 31, 2014 is primarily attributable to permanent differences measured against lower pre-tax income as well as additional reserves of approximately \$150,000 for uncertain tax positions. The Company has deferred tax assets on its books associated with net operating losses generated in previous years. The Company has considered both positive and negative available evidence in its determination that the deferred tax assets are more likely than not to be realized, and has not recorded a tax valuation allowance at December 31, 2014. The Company will continue to assess whether the deferred tax assets will be realizable and, when appropriate, will record a valuation allowance against these assets. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

### **2013 Compared to 2012**

#### *Sales*

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

*Gross Profit*

Gross profit as a percentage of sales ( Gross Margin ) increased 0.2% to 29.5% for the year ended December 31, 2013, from 29.3% in 2012. As a percentage of sales, material and direct labor collectively decreased by 0.6% in 2013, due primarily to an improved book of business. This decrease was partially offset by an increase

in overhead as a percentage of sales of 0.4% due largely to increased depreciation expense associated with new machinery.

#### *Selling, General and Administrative Expenses*

Selling, General, and Administrative Expenses ( SG&A ) increased 9.0% to \$23.6 million for the year ended December 31, 2013, from \$21.7 million in 2012. The increase in SG&A for the year ended December 31, 2013, is primarily due to increased SG&A at PAC. Excluding PAC, SG&A declined approximately \$100,000, or 0.5% from 2012, primarily due to a reduction in incentive compensation of approximately \$700,000 partially offset by an increase in professional fees of approximately \$390,000 due to higher audit and compliance fees as well as increased expenses associated with the implementation of ERP software and an increase in net selling expenses of approximately \$300,000 due largely to the investment in additional sales resources. As a percentage of sales, SG&A increased slightly to 17.0% for the year ended December 31, 2013, from 16.5% for the same period in 2012. The slight increase in SG&A as a percentage of sales is primarily due to relatively fixed SG&A expenses measured against lower organic sales.

#### *Interest Expense*

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

#### *Income Taxes*

The Company recorded income tax expense as a percentage of income before income tax expense, of 34.4% and 34.3% for the years ended December 31, 2013 and 2012, respectively. The slight increase in the effective tax rate for the year ended December 31, 2013, is primarily attributable to higher anticipated state taxes. The Company has deferred tax assets on its books associated with net operating losses generated in previous years. The Company has considered both positive and negative available evidence in its determination that the deferred tax assets are more likely than not to be realized, and has not recorded a tax valuation allowance at December 31, 2013. The Company will continue to assess whether the deferred tax assets will be realizable and, when appropriate, will record a valuation allowance against these assets. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term, if estimates of future taxable income during the carry-forward period are reduced.

#### **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, 2014, was approximately \$11.2 million and was primarily a result of net income generated of approximately \$7.5 million and an increase in accounts payable of approximately \$2.3 million due to the timing of vendor payments in the ordinary course of business. These cash inflows were partially offset by an increase in inventory of approximately \$1.8 million due to the timing of raw materials purchases and customer shipments and a decrease in accrued expenses of approximately \$2.2 million due to reduced payroll related accruals and reduced customer deposits.

Net cash used in investing activities during the year ended December 31, 2014, was approximately \$13.3 million and was primarily the result of additions of manufacturing machinery and equipment, including a new molded fiber line in Texas and the purchase of commercial real estate in Texas.

Net cash used in financing activities was approximately \$1.1 million for the year ended December 31, 2014, representing cash used to service term debt of approximately \$1.0 million, to pay a contingent note payable related to the PAC acquisition of approximately \$800,000 and to pay statutory withholding for stock options exercised and restricted stock units vested of approximately \$831,000, partially offset by excess tax benefits

on share-based compensation of approximately \$1.2 million, and net proceeds received upon stock option exercises of approximately \$336,000.

#### *Outstanding and Available Debt*

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

As of December 31, 2014, the Company had no borrowings outstanding under the credit facility and the Company was in compliance with all covenants under the credit facility.

In 2012, the Company financed the purchase of two molded fiber machines through five-year term loans that mature in September 2017. The annual interest rate is fixed at 1.83% and the loans are secured by the related molded fiber machines. As of December 31, 2014, the outstanding balance of the term loan facility was approximately \$2.9 million.

#### *Future Liquidity*

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service its contractual obligations. The Company's principal sources of funds are its operations and its revolving credit facility. The Company generated cash of approximately \$11.2 million in operations during the year ended December 31, 2014, and cannot guarantee that its operations will generate cash in future periods. The Company's longer-term liquidity is contingent upon future operating performance.

In January 2015, the Company acquired a 137,000 square foot commercial building on 27 acres in Newburyport, Massachusetts for approximately \$6.8 million. The Company anticipates that it will further expand the property and consolidate portions of its Northeast operations into its new property in multiple phases between 2015 and 2017. It expects to incur further costs with the consolidation but also expects the efficiency savings to be significant. It has not yet estimated either the one-time costs or efficiency gains in a potential consolidation of operations.

Throughout fiscal 2015, the Company plans to continue to add capacity to enhance operating efficiencies in its manufacturing plants. The Company may consider additional acquisitions of companies, technologies, or products that are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash expected to be generated from operations and funds expected to be available to it through any necessary equipment financings and additional bank borrowings, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through the next twelve months.

#### **Commitments and Contractual Obligations**

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The following table summarizes the Company's contractual obligations at December 31, 2014 (in thousands):

	Total	Less than 1 Year	Payment Due By Period		More than 5 Years
			1-3 Years	3-5 Years	
Equipment Loans	\$ 2,866	\$ 994	\$ 1,872	\$	\$
Operating Leases	3,796	1,443	2,262	91	
Debt interest	75	43	32		
Supplemental Retirement	125	25	50	50	
Total	\$ 6,862	\$ 2,505	\$ 4,216	\$ 141	\$

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service the obligations listed above. The Company's principal sources of funds are its operations and its revolving credit

facility. Although the Company generated cash from operations in the year ended December 31, 2014, it cannot guarantee that its operations will generate cash in future periods. Subject to the Risk Factors set forth in Part I, Item 1A of this Report and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset of this Report, we believe that cash flow from operations will provide us with sufficient funds in order to fund our expected operations over the next twelve months.

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

#### **Off-Balance-Sheet Arrangements**

The Company had no off-balance-sheet arrangements in 2014, other than operating leases.

#### **Critical Accounting Policies**

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

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

The Company has reviewed these policies with its Audit Committee.

#### **Revenue Recognition**

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

Goodwill

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. 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. As of September 30, 2014, the Company consists of a single reporting unit. In conjunction with a reassessment of our reportable segments (See Note 19 to the consolidated financial statements), we 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 2014 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 \$69.0 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. Based on management's review, if any of these individual key assumptions were to change, or if a combination of these key assumptions were to change, the fair value of the reporting unit could be reduced below the carrying value. As a result, 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.

As the Company has elected our fiscal year-end as the annual impairment testing date, the Company assessed qualitative factors as of December 31, 2014, and determined that as there were no material changes in the results of operations or financial condition from the September 30, 2014 impairment test, it was more likely than not that the fair value of its reporting unit exceeded its carrying amount at December 31, 2014. Factors considered included financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

#### Accounts Receivable

The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially uncollectible. Determining adequate reserves for accounts receivable requires management's judgment. Conditions impacting the realizability of the Company's receivables could cause actual asset write-offs to be materially different than the reserved balances as of December 31, 2014.

#### Inventories

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

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The Company periodically reviews the realizability of its inventory for potential obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2014.

### 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.

There were no new accounting pronouncements adopted during 2014 that had a material effect on our consolidated financial statements.

**ITEM 7A. 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, 2014, 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, 2014, the Company had no borrowings outstanding under the revolving credit facility, and the Company believes the market risk associated with the facility is minimal.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements and supplementary data of the company are listed under Part IV, Item 15, in this Report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report (the Evaluation Date). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting



The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance, as opposed to absolute assurance, of achieving their internal control objectives.

Management conducted an assessment of the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2014, has been audited by Grant Thornton LLP, an independent registered public accounting firm, who also audited the Company's consolidated financial statements. Grant Thornton's attestation report on the Company's internal control over financial reporting is included herein.

There was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The information required by this Item 10 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item 12 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item 14 is hereby incorporated by reference to the Company's definitive proxy statement to be filed by the Company within 120 days after the close of its fiscal year.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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	<u>Financial Statement Schedule</u>
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	All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.
(a) (3)	
	Exhibits
	See the Exhibit Index for a listing of exhibits, which are filed herewith or incorporated herein by reference to the location indicated

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UFP TECHNOLOGIES, INC.

Date: March 13, 2015

By: */s/ R. Jeffrey Bailly*  
R. Jeffrey Bailly, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
<i>/s/ R. Jeffrey Bailly</i> R. Jeffrey Bailly	Chairman, Chief Executive Officer, President, and Director	March 13, 2015
<i>/s/ Ronald J. Lataille</i> Ronald J. Lataille	Chief Financial Officer, Senior Vice President, Principal Financial and Accounting Officer	March 13, 2015
<i>/s/ Kenneth L. Gestal</i> Kenneth L. Gestal	Director	March 13, 2015
<i>/s/ David B. Gould</i> David B. Gould	Director	March 13, 2015
<i>/s/ Thomas Oberdorf</i> Thomas Oberdorf	Director	March 13, 2015
<i>/s/ Marc Kozin</i> Marc Kozin	Director	March 13, 2015
<i>/s/ David K. Stevenson</i> David K. Stevenson	Director	March 13, 2015
<i>/s/ Robert W. Pierce, Jr.</i> Robert W. Pierce, Jr.	Director	March 13, 2015
<i>/s/ Lucia Luce Quinn</i> Lucia Luce Quinn	Director	March 13, 2015

**UFP TECHNOLOGIES, INC.**

Consolidated Financial Statements  
and Financial Statement Schedule

As of December 31, 2014 and 2013

And for the Years Ended December 31, 2014, 2013 and 2012

With Reports of Independent Registered Public Accounting Firm

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**UFP TECHNOLOGIES, INC.**

Index to Consolidated Financial Statements and Financial Statement Schedule

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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, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, 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 13, 2015 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Boston, Massachusetts

March 13, 2015



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## 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, 2014, 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, 2014, 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, 2014, and our report dated March 13, 2015 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Boston, Massachusetts

March 13, 2015

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## UFP TECHNOLOGIES, INC.

## Consolidated Balance Sheets

(In thousands, except share data)

	December 31,	
	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 34,052	\$ 37,303
Receivables, net	16,470	17,032
Inventories	12,893	11,048
Prepaid expenses	664	690
Refundable income taxes	3,192	1,537
Deferred income taxes	1,142	1,110
Total current assets	68,413	68,720
Property, plant and equipment	75,823	64,574
Less accumulated depreciation and amortization	(40,980)	(39,067)
Net property, plant and equipment	34,843	25,507
Goodwill	7,322	7,322
Intangible assets, net	953	1,346
Other assets	2,159	2,013
Total assets	\$ 113,690	\$ 104,908
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,398	\$ 3,081
Accrued expenses	5,222	8,265
Current installments of long-term debt	993	976
Total current liabilities	11,613	12,322
Long-term debt, excluding current installments	1,873	2,867
Deferred income taxes	3,588	2,324
Retirement and other liabilities	1,624	1,805
Total liabilities	18,698	19,318
Commitments and contingencies (Note 15)		
Stockholders equity:		
Preferred stock, \$.01 par value. Authorized 1,000,000 shares; zero shares issued or outstanding		
Common stock, \$.01 par value. Authorized 20,000,000 shares; issued and outstanding 7,068,815 shares in 2014 and 6,900,683 shares in 2013	71	69
Additional paid-in capital	22,132	20,291
Retained earnings	72,789	65,230
Total stockholders equity	94,992	85,590
Total liabilities and stockholders equity	\$ 113,690	\$ 104,908

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

## UFP TECHNOLOGIES, INC.

## Consolidated Statements of Operations

(In thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
Net sales	\$ 139,307	\$ 139,223	\$ 130,962
Cost of sales	102,427	98,209	92,643
Gross profit	36,880	41,014	38,319
Selling, general, and administrative expenses	23,847	23,605	21,665
Restructuring costs	1,556		
(Gain) loss on sales of property, plant and equipment	(84)	11	(12)
Operating income	11,561	17,398	16,666
Other expenses			
Interest expense, net	108	205	90
Other, net	(312)		2
Total other (income) expense	(204)	205	92
Income before income tax provision	11,765	17,193	16,574
Income tax expense	4,206	5,917	5,679
Net income from consolidated operations	7,559	11,276	10,895
Net income per share:			
Basic	\$ 1.08	\$ 1.65	\$ 1.63
Diluted	\$ 1.05	\$ 1.59	\$ 1.55
Weighted average common shares:			
Basic	7,028	6,824	6,679
Diluted	7,175	7,105	7,028

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

## UFP TECHNOLOGIES, INC.

## Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2014, 2013, and 2012

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Non- Controlling Interests	Total Stockholders Equity
<b>Balance at December 31, 2011</b>	6,555	\$ 66	\$ 18,186	\$ 43,059	\$ 674	\$ 61,985
Share-based compensation	62		860			860
Exercise of stock options net of shares presented for exercise	133	1	364			365
Net share settlement of restricted stock units and stock option tax w/h			(672)			(672)
Excess tax benefits on share-based compensation			831			831
Net income				10,895		10,895
Distribution to non-controlling interests					(674)	(674)
Investment in United Development Company Limited (Note 7)			(330)			(330)
<b>Balance at December 31, 2012</b>	6,750	\$ 67	\$ 19,239	\$ 53,954	\$	\$ 73,260
Share-based compensation	38	1	923			924
Exercise of stock options net of shares presented for exercise	113	1	190			191
Net share settlement of restricted stock units and stock option tax w/h			(879)			(879)
Excess tax benefits on share-based compensation			818			818
Net income				11,276		11,276
<b>Balance at December 31, 2013</b>	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 w/h			(831)			(831)
Excess tax benefits on share-based compensation			1,219			1,219
Net income				7,559		7,559
<b>Balance at December 31, 2014</b>	7,069	\$ 71	\$ 22,132	\$ 72,789	\$	\$ 94,992

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



## UFP TECHNOLOGIES, INC.

## Consolidated Statement of Cash Flows

(In thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income from consolidated operations	\$ 7,559	\$ 11,276	\$ 10,895
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,376	4,084	2,928
Loss (gain) on sales of property, plant and equipment	5	11	(12)
Share-based compensation	1,119	924	860
Deferred income taxes	1,232	740	610
Excess tax benefits on share-based compensation	(1,219)	(818)	(832)
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables, net	562	804	(842)
Inventories	(1,845)	(1,353)	801
Prepaid expenses	26	(36)	(65)
Refundable income taxes	(436)	994	(695)
Accounts payable	2,317	(1,007)	384
Accrued expenses	(2,243)	1,272	2,143
Retirement and other liabilities	(181)	(417)	190
Other assets	(146)	(368)	(203)
Net cash provided by operating activities	11,126	16,106	16,162
Cash flows from investing activities:			
Additions to property, plant and equipment	(13,436)	(5,830)	(11,994)
Holdback payment related to the acquisition of Packaging Alternatives Corporation (PAC)		(600)	
Redemption of cash value life insurance		37	
Acquisition of PAC net of cash acquired			(3,596)
Proceeds from sale of property, plant and equipment	112	1	86
Net cash used in investing activities	(13,324)	(6,392)	(15,504)
Cash flows from financing activities:			
Distribution to United Development Company Partners (non-controlling interest)			(1,196)
Excess tax benefits on share-based compensation	1,219	818	832
Proceeds from the exercise of stock options, net of attestations	336	191	365
Principal repayment of long-term debt	(977)	(6,601)	(740)
Payment of statutory withholding for stock options exercised and restricted stock units vested	(831)	(879)	(672)
Payment of contingent note payable	(800)		
Proceeds from long-term borrowings		580	4,384
Net cash (used in) provided by financing activities	(1,053)	(5,891)	2,973
Net change in cash and cash equivalents	(3,251)	3,823	3,631
Cash and cash equivalents at beginning of year	37,303	33,480	29,849
Cash and cash equivalents at end of year	\$ 34,052	\$ 37,303	\$ 33,480

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





**UFP TECHNOLOGIES, INC.**

**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Policies**

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

*(a) Principles of Consolidation*

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

*(b) Use of Estimates*

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

*(c) Fair Value Measurement*

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

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

(d) *Fair Value of Financial Instruments*

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

(e) *Cash and Cash Equivalents*

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, 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 \$23.2 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, 2014.

(g) *Inventories*

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

The Company periodically reviews the realizability of its inventory for potential obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2014.

(h) *Property, Plant, and Equipment*

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

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

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

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

(i) *Goodwill*

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. As of September 30, 2014, the Company consists of a single reporting unit. In conjunction with a reassessment of our reportable segments (See Note 19), we 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 2014 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 \$69.0 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. Based on management's review, if any of these individual key assumptions were to change, or if a combination of these key assumptions were to change, the fair value of the reporting unit could be reduced below the carrying value. As a result, 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.

As the Company has elected our fiscal year-end as the annual impairment testing date, the Company assessed qualitative factors as of December 31, 2014, and determined that as there were no material changes in the results of operations or financial condition from the September 30, 2014 impairment test, it was more likely than not that the fair value of its reporting unit exceeded its carrying amount at December 31, 2014. Factors considered included financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

(j) *Intangible Assets*

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

(k) *Revenue Recognition*

The Company recognizes revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of its obligation is complete, its price to the buyer is fixed or determinable, and the Company is reasonably assured of collection. If a loss is anticipated on any contract, a provision for the entire loss is made immediately. Determination of these criteria, in some cases, requires management's judgment.

(l) *Share-Based Compensation*

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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 12. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Share-based compensation expense	\$ 1,119	\$ 924	\$ 860

The compensation expense for stock options granted during the three-year period ended December 31, 2014, was determined as the fair value of the options using the Black Scholes valuation model. 2013 compensation expense for stock options granted prior to January 1, 2012, was

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determined as the fair value of the options using a lattice-based option valuation model. The assumptions are noted as follows:

	Year Ended December 31,		
	2014	2013	2012
Expected volatility	32.8% - 37.9%	34.0% - 50.0%	56.90%
Expected dividends	None	None	None
Risk-free interest rate	0.7% - 0.9%	0.4% - 0.7%	0.39%
Exercise price	Closing price on date of grant	Closing price on date of grant	Closing price on date of grant
Expected term	3.8 to 5.0 years	3.3 to 5.0 years	5 years
Weighted-average grant-date fair value	\$7.24	\$5.84	\$7.72

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

The total income tax benefit recognized in the statement of operations for share-based compensation arrangements was approximately \$320,000, \$280,000 and \$270,000, for the years ended December 31, 2014, 2013 and 2012, respectively.

*(m) Deferred Rent*

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

*(n) Shipping and Handling Costs*

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

*(o) Research and Development*

On a routine basis, the Company incurs costs related to research and development activity. These costs are expensed as incurred. Approximately \$1.2 million, \$1.2 million and \$1.3 million were expensed in the years ended December 31, 2014, 2013 and 2012, respectively.

(p) *Income Taxes*

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

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



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

(q) *Segments and Related Information*

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

*Revisions*

Certain revisions have been made to the 2013 Consolidated Balance Sheet to conform to the current year presentation relating to the current and long-term classification of deferred taxes. The impact on the 2013 Consolidated Balance Sheet was a decrease in the amount of \$112,000 to both current deferred income taxes (asset) and long-term deferred income taxes (liability). In addition, certain revisions have been made to the 2013 and 2012 Consolidated Statements of Operations to conform to the current year presentation relating to classification of certain rent and indirect labor items. The impact on the Consolidated Statements of Operations was a decrease to costs of sales and an increase to selling, general and administrative expenses in the amounts of \$365,000 and \$134,000 for the years 2013 and 2012, respectively. These revisions had no impact on previously reported net income or cash flows and are deemed immaterial to the previously issued financial statements.

*Recent Accounting Pronouncements*

On May 28, 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 January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition methods. The Company is evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our consolidated financial position and results of operations.

There were no new accounting pronouncements adopted during 2014 that had a material effect on our consolidated financial statements.

(2) **Supplemental Cash Flow Information**

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

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	Years Ended December 31,					
	2014		2013		2012	
Interest	\$	112	\$	210	\$	58
Income taxes, net of refunds	\$	3,259	\$	4,199	\$	4,960

During the years ended December 31, 2014 and 2013, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock (cashless exercises) totaling approximately \$372,000 and \$225,000, respectively.

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

**(3) Receivables**

Receivables consist of the following (in thousands):

	December 31,	
	2014	2013
Accounts receivable trade	\$ 16,972	\$ 17,544
Less allowance for doubtful receivables	(502)	(512)
	\$ 16,470	\$ 17,032

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 \$171,000 and \$32,000 for the years ended December 31, 2014 and 2013, respectively.

**(4) Inventories**

Inventories consist of the following (in thousands):

	December 31,	
	2014	2013
Raw materials	\$ 7,145	\$ 6,627
Work in process	1,142	1,056
Finished goods	4,606	3,365
	\$ 12,893	\$ 11,048

**(5) Other Intangible Assets**

The carrying values of the Company's definite-lived intangible assets as of December 31, 2014 and 2013 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, 2014	\$ 429	\$ 512	\$ 2,046	\$ 2,987
Accumulated amortization at December 31, 2014	(429)	(325)	(1,280)	(2,034)
Net balance at December 31, 2014	\$	\$ 187	\$ 766	\$ 953
Gross amount at December 31, 2013	\$ 429	\$ 512	\$ 2,046	\$ 2,987

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Accumulated amortization at December 31, 2013		(429)		(249)		(963)		(1,641)
Net balance at December 31, 2013	\$		\$	263	\$	1,083	\$	1,346

Amortization expense related to intangible assets was approximately \$393,000, \$478,000 and \$164,000, respectively, for the years ended December 31, 2014, 2013 and 2012. Future amortization for the years ending December 31 will be approximately (in thousands):

2015	\$	318
2016		318
2017		317
Total	\$	953

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**(6) Property, Plant, and Equipment**

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

	December 31,	
	2014	2013
Land and improvements	\$ 1,613	\$ 840
Buildings and improvements	15,988	12,576
Leasehold improvements	2,897	2,918
Machinery & Equipment	47,756	41,964
Furniture, fixtures, computers & software	5,291	4,903
Construction in progress equipment	2,278	1,373
	\$ 75,823	\$ 64,574

Depreciation and amortization expense for the years ended December 31, 2014, 2013, and 2012, were approximately \$4.0 million, \$3.6 million and \$2.8 million, respectively.

**(7) Investment in and Advances to Affiliated Partnership**

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

**(8) Indebtedness**

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

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In conjunction with the execution of the credit facility, the Company fully paid approximately \$5.1 million in debt previously outstanding under the Company's prior credit facility with Bank of America, N.A., which was terminated on December 2, 2013. As of December 31, 2014, the Company had no borrowings outstanding under the credit facility.

On October 11, 2012, the Company entered into a loan agreement to finance the purchase of two new molded fiber machines. The annual interest rate is fixed at 1.83%. As of December 31, 2014, approximately \$5.0 million had been advanced on the loan and the outstanding balance was approximately \$2.9 million. The loan will be repaid over a five-year term. The loan is secured by the related molded fiber machines.

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

	December 31,	
	2014	2013
Equipment loans	\$ 2,866	\$ 3,843
Total long-term debt	2,866	3,843
Current installments	(993)	(976)
Long-term debt, excluding current installments	\$ 1,873	\$ 2,867

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

Year ending December 31:	
2015	\$ 993
2016	1,014
2017	859
	\$ 2,866

**(9) Accrued Expenses**

Accrued expenses consist of the following (in thousands):

	December 31,	
	2014	2013
Compensation	\$ 1,811	\$ 2,568
Benefits / self-insurance reserve	411	588
Paid time off	921	883
Commissions payable	164	503
Unrecognized tax benefits (see Note 10)	425	275
Customer deposit		1,427
Contingent note payable - PAC (see Note 18)		745
Other	1,490	1,276
	\$ 5,222	\$ 8,265

**(10) Income Taxes**

The Company's income tax provision for the years ended December 31, 2014, 2013 and 2012 consists of the following (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Current			

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Federal	\$	2,638	\$	4,353	\$	4,301
State		336		824		768
		2,974		5,177		5,069
Deferred						
Federal		1,262		641		699
State		(30)		99		(89)
		1,232		740		610
Total income tax provision	\$	4,206	\$	5,917	\$	5,679

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At December 31, 2014, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$710,000, which are available to offset future taxable income and expire during the federal tax year ending December 31, 2019. The future benefit of the federal net operating loss carryforwards will be limited to approximately \$300,000 per year in accordance with Section 382 of the Internal Revenue Code.

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

	December 31,	
	2014	2013
<b>Current deferred tax assets:</b>		
Reserves	\$ 428	\$ 383
Inventory capitalization	264	244
Compensation programs	139	204
Retirement liability	35	33
Equity-based compensation	276	246
Total current deferred tax assets	\$ 1,142	\$ 1,110
<b>Long-term deferred tax assets / (liabilities):</b>		
Excess of book over tax basis of fixed assets	\$ (3,471)	\$ (2,413)
Goodwill	(848)	(827)
Total long-term deferred tax liabilities	(4,319)	(3,240)
Net operating loss carryforwards	242	342
Deferred rent	36	46
Intangible assets	188	117
Compensation programs	265	411
Total long-term deferred tax assets	731	916
Net long-term deferred tax liabilities	\$ (3,588)	\$ (2,324)

The amounts recorded as deferred tax assets as of December 31, 2014, and 2013, 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 \$1.8 million at December 31, 2014, 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:

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	Years Ended December 31,		
	2014	2013	2012
Computed expected tax rate	34.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	1.1	3.6	2.7
Meals and entertainment	0.3	0.1	0.1
R&D credits	(0.7)	(1.0)	(0.1)
Domestic production deduction	(1.4)	(2.4)	(2.5)
Non-deductible ISO stock option expense	0.4	0.2	0.1
Unrecognized tax benefits	1.3	(0.1)	(0.2)
Other	0.8		0.2
Effective tax rate	35.8%	34.4%	34.3%

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan which have been audited through 2004, income tax returns filed in Massachusetts which have been audited through 2007 and income tax returns filed in Florida which have been audited through 2009. The Company's federal tax return for 2008 has been audited. Federal and state tax returns for the years 2011 through 2013 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,	
	2014	2013
Gross UTB balance at beginning of fiscal year	\$ 275	\$ 290
Increases for tax positions of prior years	195	10
Reductions for tax positions of prior years	(45)	(25)
Gross UTB balance at end of fiscal year	\$ 425	\$ 275

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2014 and 2013, are \$425,000 and \$275,000, respectively, for each year.

The total amount of accrued interest and penalties on uncertain tax positions at December 31, 2014, and 2013 was \$195,000 and \$0, respectively.

At December 31, 2014, all of the unrecognized tax benefits relate to tax returns of a specific state jurisdiction that are currently under examination. Accordingly, the Company expects a reduction of this amount during 2015, since the Company expects to resolve this examination in 2015.

**(11) Net Income Per Share**

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

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	Years Ended December 31,		
	2014	2013	2012
Basic weighted average common shares outstanding during the year	7,028	6,824	6,679
Weighted average common equivalent shares due to stock options and restricted stock units	147	281	349
Diluted weighted average common shares outstanding during the year	7,175	7,105	7,028

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, 2014, 2013, and 2012, the number of stock awards excluded from the computation was 53,651, 78,908, and 17,770, respectively.

## (12) Stock Option and Equity Incentive Plans

### Employee Stock Option Plan

The Company's 1993 Employee Stock Option Plan ( "Employee Stock Option Plan" ), which is stockholder approved, provides long-term rewards and incentives in the form of stock options to the Company's key employees, officers, employee directors, consultants, and advisors. The plan provides for either non-qualified stock options or incentive stock options for the issuance of up to 1,550,000 shares of common stock. The exercise price of the incentive stock options may not be less than the fair market value of the common stock on the date of grant, and the exercise price for non-qualified stock options shall be determined by the Compensation Committee. These options expire over 5- to 10-year periods.

Options granted under the plan generally become exercisable with respect to 25% of the total number of shares subject to such options at the end of each 12-month period following the grant of the options, except for options granted to officers, which may vest on a different schedule. At December 31, 2014, there were 15,000 options outstanding under the Employee Stock Option Plan. The plan expired on April 12, 2010.

### Incentive Plan

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

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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

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appreciation rights. The Company determines the form, terms, and conditions, if any, of any awards made under the Plan.

Through December 31, 2014, 1,150,533 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 35,088 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, 2014, 170,000 options have been granted and 115,000 options are outstanding. At December 31, 2014, 905,629 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, 2014, 289,782 options have been granted and 210,107 options are outstanding. For the year ended December 31, 2014, 5,092 shares of common stock were issued and 177,993 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, 2013	467,500	\$ 9.00		
Granted	35,193	24.69		
Exercised	(162,586)	4.36		
Cancelled or expired				
Outstanding December 31, 2014	340,107	\$ 12.84	3.83	\$ 4,008
Exercisable at December 31, 2014	257,608	\$ 10.35	3.92	\$ 3,675
Vested and expected to vest at December 31, 2014	340,107	\$ 12.84	3.83	\$ 4,008

During the years ended December 31, 2014, 2013 and 2012, 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 \$3.4 million, \$2.1 million and \$2.0 million, respectively, and the total amount of consideration received from the exercise of these options was approximately \$709,000, \$416,000 and \$506,000, 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, 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, 2013 and 2012, 26,662 shares were surrendered at an average market price of \$ 20.54 and 22,161 shares were surrendered at an average market price of \$18.01, respectively.

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During the years ended December 31, 2014, 2013 and 2012, the Company recognized compensation expense related to stock options granted to directors and employees of approximately \$354,000, \$214,000, and \$133,000, respectively.

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On February 18, 2014, the Company's Compensation Committee approved an award of \$400,000 payable in shares of the Company's common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Equity Incentive Plan. The shares were issued on December 15, 2014. The Company has recorded compensation expense of \$400,000 for the year ended December 31, 2014. Stock compensation expense of \$400,000 and \$300,000 was recorded in 2013 and 2012, respectively, for similar awards.

On March 12, 2014, the Company issued 196 shares of unrestricted common stock to a non-employee member of the Company's Board of Directors as part of their retainer for serving on the Board. Based upon the closing price of \$25.48 on March 12, 2014, the Company recorded compensation expense of \$5,000 associated with the stock issuance for the year ended December 31, 2014.

On June 11, 2014, the Company issued 4,893 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 \$25.04 on June 11, 2014, the Company recorded compensation expense of \$122,000 associated with the stock issuance for the year ended December 31, 2014. The Company recorded compensation expense of \$60,000 in 2013 and 2012 for similar awards.

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, 2014:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2013	50,900	\$ 11.94
Awarded	14,441	25.97
Shares distributed	(30,253)	10.11
Forfeited / Cancelled		
Outstanding at December 31, 2014	35,088	\$ 17.87

The Company recorded approximately \$237,000, \$250,000 and \$368,000 in compensation expense related to these RSUs during the years ended December 31, 2014, 2013 and 2012 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, 2014, 9,878 shares were redeemed for this purpose at an average market price of \$25.88. During the years ended December 31, 2013 and 2012, 22,089 and 25,684 shares were redeemed for this purpose at an average market price of \$19.29 and \$16.10, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2014, vest (in thousands):





		Common		Restricted		
	Options	Stock	Stock	Stock Units	Stock Units	Total
2015	\$	172	\$	\$	196	\$ 368
2016		147			147	294
2017		46			101	147
2018		16			16	32
Total	\$	381	\$	\$	460	\$ 841

Tax benefits totaling approximately \$1,219,000, \$818,000 and \$831,000 were recognized as additional paid-in capital during the years ended December 31, 2014, 2013 and 2012, respectively, since the Company's tax deductions exceeded the share-based compensation charge recognized for stock options exercised and RSUs vested.

**(13) Preferred Stock**

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

**(14) Supplemental Retirement Benefits**

The Company provides discretionary supplemental retirement benefits for certain retired officers, which will provide an annual benefit to these individuals for various terms following separation from employment. The Company recorded an expense of approximately \$23,000, \$17,000 and \$32,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The present value of the supplemental retirement obligation has been calculated using a 4.0% discount rate, and is included in retirement and other liabilities. Total projected future cash payments for the years ending December 31, 2015 through 2019, are approximately \$25,000 for each year.

**(15) Commitments and Contingencies**

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

Future minimum lease payments under non-cancelable operating leases as of December 31, 2014, are as follows (in thousands):

Years Ending December 31,	Operating Leases
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2015	\$	1,443
2016		1,341
2017		921
2018		91
Total minimum lease payments (a)	\$	3,796

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(a) Minimum payments have not been reduced by minimum sublease rentals of approximately \$589,000 due in the future under noncancelable subleases.

Rent expense amounted to approximately \$1.8 million, \$2.0 million and \$2.4 million in 2014, 2013 and 2012 respectively.

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

**(16) Employee Benefit Plans**

The Company maintains a profit sharing plan for eligible employees. Contributions to the Plan are made in the form of matching contributions to employee 401k deferrals, as well as discretionary profit sharing amounts determined by the Board of Directors to be funded by March 15 following each fiscal year. Contributions were approximately \$750,000, \$800,000 and \$760,000 in 2014, 2013 and 2012, respectively.

The Company has a partially self-insured health insurance program that covers all eligible participating employees. The maximum liability is limited by a stop loss of \$150,000 per insured person, along with an aggregate stop loss determined by the number of participants.

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

The compensation withheld from Plan participants, together with gains or losses determined by the participants' deferral elections is reflected as a deferred compensation obligation to participants, and is classified within retirement and other liabilities in the accompanying balance sheets. At December 31, 2014 and 2013, the balance of the deferred compensation liability totaled approximately \$1.5 million and \$1.7 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 \$2.0 million and \$1.8 million as of December 31, 2014 and 2013, respectively.

**(17) Fair Value of Financial Instruments**

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

*Level 1*

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

information on an ongoing basis.

*Level 2*

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

*Level 3*

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

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

**(18) Acquisition**

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

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

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

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

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

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Consideration for the net assets acquired included a note payable to the Sellers in the amount of \$800,000. The note was paid in October 2014. The note was discounted to reflect imputed interest at 2% and a probability of payment of 95% and 90% for 2013 and 2012, respectively.

The goodwill recorded of \$841,000 approximates the amount of goodwill the Company expects to deduct for tax purposes. The goodwill reflects the excess of consideration to be paid over the fair value of the net assets acquired, and represents the value of the workforce as well as synergies expected to be realized.

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

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

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

		Year Ended December 31, 2012 Proforma (Unaudited)
Sales	\$	141,274
Net income		11,559
<i>Earnings Per Share:</i>		
Basic	\$	1.73
Diluted		1.64

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

### (19) Segment Data

The Company has historically reported two segments, Component Products and Packaging. However, the Company has been undergoing a shift in the way the business is managed and the way information is used by the Chief Operating Decision Maker (the CODM), who is the Chief Executive Officer, to consider risks and opportunities and to make decisions and review performance as further described below. In late 2013 and into 2014 the Company committed to changes to the Company's operations including plant consolidations, consolidation of the Company's sales force, and other strategic initiatives, to coincide with the Company's change in operating strategy to maximize capacity in each plant and enhance customer service across markets. By the end of the third quarter of 2014, many of those initiatives were complete and the Company determined that the existing segment aggregation of Component Products and Packaging was no longer consistent with how the business is structured and reviewed by the CODM. This is primarily because the Company has numerous manufacturing processes that are duplicated through its plants allowing it to move workload based on available capacity and proximity to customers. The CODM evaluates consolidated financial information to manage the business. As a result, the Company has determined that it consists of a single operating and reportable segment.

Revenues from customers outside of the United States are not material. No customer comprised more than 10% of the Company's consolidated revenues for the year ended December 31, 2014. All of the Company's assets are located in the United States.





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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 2014 are as follows (in thousands) (it is not practical to determine sales by market for previous years):

Market	Net Sales	%
Medical	\$ 50,080	35.9%
Automotive	24,943	17.9%
Consumer	17,366	12.5%
Electronics	17,022	12.2%
Industrial	15,327	11.0%
Aerospace & Defense	14,569	10.5%
Net Sales	\$ 139,307	

### (20) Quarterly Financial Information (unaudited)

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

2014	Q1		Q2		Q3		Q4	
Net sales	\$	34,609	\$	34,025	\$	35,406	\$	35,267
Gross profit		9,108		9,476		9,683		8,613
Net income		2,062		1,860		2,066		1,571
Basic net income per share		0.30		0.27		0.29		0.22
Diluted net income per share		0.29		0.26		0.29		0.22

2013	Q1		Q2		Q3		Q4	
Net sales	\$	33,697	\$	35,832	\$	34,700	\$	34,993
Gross profit		8,902		10,719		10,162		11,231
Net income		2,030		2,982		2,887		3,377
Basic net income per share		0.30		0.44		0.42		0.49
Diluted net income per share		0.29		0.42		0.41		0.47

### (21) Plant Consolidation

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

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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 upcoming December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. This consolidation is substantially complete and the actual costs incurred through December 31, 2014 are included in the table below.

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

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

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

## (22) Subsequent Events

In January 2015, the Company acquired a 137,000 square foot commercial building on 27 acres in Newburyport, Massachusetts for approximately \$6.8 million. The Company anticipates that it will further expand the property and consolidate portions of its Northeast operations into its new property in multiple phases between 2015 and 2017. It expects to incur further costs with the consolidation but also expects the efficiency savings to be significant. It has not yet estimated either the one-time costs or efficiency gains in a potential consolidation of operations.

## UFP TECHNOLOGIES, INC.

## Consolidated Financial Statement Schedule

## Valuation and Qualifying Accounts

Years ended December 31, 2014, 2013 and 2012

Accounts receivable, allowance for doubtful accounts:

	2014		2013		2012	
Balance at beginning of year	\$	512	\$	495	\$	379
Provision credited to expense		63		22		113
Recoveries, net of write-offs		(73)		(5)		3
Balance at end of year	\$	502	\$	512	\$	495

**Exhibit Index**

<b>Number</b>	<b>Description of Exhibit</b>
3.01	Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.01 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed with the SEC on May 15, 2004).
3.02	Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit 3.02 to the Company's Current Report on Form 8-K, filed with the SEC on March 24, 2009).
3.03	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.03 to the Company's Current Report on Form 8-K, filed with the SEC on March 24, 2009).
4.01	Specimen Certificate for shares of the Company's Common Stock (incorporated by reference to Exhibit 4.01 to the Company's Registration Statement on Form S-1, filed with the SEC on December 15, 1993).
4.02	Description of Capital Stock (contained in the Certificate of Incorporation of the Company, as amended, filed as Exhibit 3.01 hereto).
4.03	Rights Agreement, dated as of March 20, 2009, by and between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent, which includes as <u>Exhibit A</u> , the Form of Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock, as <u>Exhibit B</u> , the Form of Rights Certificate, and as <u>Exhibit C</u> , the Summary of Rights to Purchase Shares of Preferred Stock of UFP Technologies, Inc. (incorporated by reference to Exhibit 4.03 to the Company's Current Report on Form 8-K, filed with the SEC on March 24, 2009).
10.01	1993 Combined Stock Option Plan, as amended (incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, filed with the SEC on August 11, 1998). #
10.02	1993 Non-employee Director Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-76440), filed with the SEC on December 11, 2009). #
10.03	Facility Lease between the Company and Raritan Associates (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1, filed with the SEC on December 15, 1993).
10.04	Amendment to Facility Lease between the Company and Raritan Johnson Associates, LLC (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on March 27, 2008).
10.05	Amendment to Facility Lease between the Company and Raritan Johnson Associates, LLC.*
10.06	Facility Lease between the Company and Dana Evans d/b/a Evans Enterprises (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1, filed with the SEC on December 15, 1993).
10.07	Form of Indemnification Agreement for directors and officers of the Company (incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-1, filed with the SEC on December 15, 1993). #

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<b>Number</b>	<b>Description of Exhibit</b>
10.08	Lease Amendment III to the Facility Lease between the Company and Ward Hill Realty Associates, LLC, successors in interest to Evans Enterprises of South Beach (incorporated by reference to Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, filed with the SEC on November 13, 2002).
10.09	Facility Lease between Simco Automotive Trim, Inc. and Insite Atlanta, LLC (incorporated by reference to Exhibit 10.31 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003).
10.10	Amendment to Facility Lease between Simco Automotive Trim, Inc. and Max Warehousing, L.L.C., successor in interest to Insite Atlanta, LLC.*
10.11	Executive Non-qualified Excess Plan (incorporated by reference to Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2006, filed with the SEC on November 13, 2006). #
10.12	UFP Technologies, Inc. 2003 Incentive Plan, as amended (incorporated by reference to Exhibit 10.65 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the SEC on May 10, 2013). #
10.13	Promissory Note of United Development Company Limited in favor of Bank of America, N.A. dated May 22, 2007 (incorporated by reference to Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed with the SEC on August 10, 2007).
10.14	Employment Agreement with R. Jeffrey Bailly dated October 8, 2007 (incorporated by reference to Exhibit 10.28 to the Company's Current Report on Form 8-K, filed with the SEC on October 12, 2007). #
10.15	Fourth Amendment to Facility Lease between the Company and Ward Hill Realty Associates, LLC (incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on March 27, 2008).
10.16	2009 Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit 10.66 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the SEC on May 10, 2013). #
10.17	Amendment No. 1 to Employment Agreement with R. Jeffrey Bailly (incorporated by reference to Exhibit 10.56 to the Company's Current Report on Form 8-K, filed with the SEC on March 8, 2011). #
10.18	Facility Lease between the Company and East Group Properties, LLP (incorporated by reference to Exhibit 10.60 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 11, 2012).
10.19	Facility Lease between the Company and Susana Property Co. (incorporated by reference to Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2012, filed with the SEC on November 9, 2012).
10.20	Amendment No. 2 to Employment Agreement with R. Jeffrey Bailly (incorporated by reference to Exhibit 10.62 to the Company's Current Report on Form 8-K, filed with SEC on February 22, 2013). #

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Number	Description of Exhibit
10.21	Form of 2013 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.63 to the Company's Current Report on Form 8-K, filed with SEC on February 22, 2013). #
10.22	Form of 2013 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.64 to the Company's Current Report on Form 8-K, filed with SEC on February 22, 2013). #
10.23	Form of 2014 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 24, 2014). #
10.24	Form of 2014 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 24, 2014). #
10.25	Credit Agreement between the Company and Bank of America, N.A., dated December 2, 2013 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 14, 2014).
10.26	Amendment to Credit Agreement between the Company and Bank of America, N.A., dated March 9, 2015.*
10.27	Form of 2015 CEO Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 27, 2015). #
10.28	Form of 2015 Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 27, 2015). #
21.01	Subsidiaries of the Company. *
23.01	Consent of Grant Thornton LLP. *
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
101.INS	XBRL Instance Document. *
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Calculation Linkbase Document. *
101.LAB	XBRL Taxonomy Label Linkbase Document. *
101.PRE	XBRL Taxonomy Presentation Linkbase Document. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *

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\* Filed herewith.

\*\* Furnished herewith.



# Indicates management contract or compensatory plan or arrangement.

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