

UFP TECHNOLOGIES INC

Form 10-K/A

August 18, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2015

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)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-2314970  
(I.R.S. Employer  
Identification No.)

100 Hale Street, Newburyport, MA – USA

(Address of principal executive offices)

01950-3504  
(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

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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  
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, 2015, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$80,812,307, based on the closing price of \$20.92 on that date as reported on the NASDAQ Capital Market.

As of March 2, 2016, there were 7,178,397 shares of common stock, \$0.01 par value per share, of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts of this Form 10-K Into Which Incorporated
Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders.	Part III

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Amendment No. 1 to the Annual report on form 10-k

for the year ended december 31, 2015

explanatory note

UFP Technologies, Inc. (“UFP”) is filing this Amendment No. 1 (this “Amendment”) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission on March 11, 2016 (the “Original Form 10-K”), solely for the purposes of amending (i) the Reports of Independent Registered Public Accounting Firm (the “Audit Reports”) contained in Item 15 of Part IV of the Original Form 10-K to correct a typographical error in the dates of the Audit Reports from March 15, 2016 to March 11, 2016 and (ii) Exhibit 23.01, Consent of Independent Registered Public Accounting Firm (the “Consent”) to correct a typographical error in the date of the Audit Reports identified in the Consent from March 15, 2016 to March 11, 2016.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have repeated the entire text of Item 15 of Part IV of the Original Filing in this Amendment and we have also included, as exhibits, new certifications of the Chief Executive Officer and the Chief Financial Officer required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Except as described above, no other changes have been made to the Original Form 10-K, and this Amendment does not amend, update or change any other items or disclosures in the Original Form 10-K. Further, this Amendment does not reflect subsequent events occurring after the filing date of the Original Form 10-K or modify or update in any way disclosures in the Original Form 10-K.

PART IV

ITEM 15.EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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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.

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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: August 18, 2016 By: /s/ Ronald J. Lataille  
Ronald J. Lataille, Chief Financial  
Officer, Senior Vice President,  
Principal Financial and Accounting  
Officer

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UFP TECHNOLOGIES, INC.

Consolidated Financial Statements  
and Financial Statement Schedule

As of December 31, 2015 and 2014

And for the Years Ended December 31, 2015, 2014 and 2013

With Reports of Independent Registered Public Accounting Firm

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UFP TECHNOLOGIES, INC.

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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, 2015 and 2014, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UFP Technologies, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2016 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Boston, Massachusetts

March 11, 2016

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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, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2015, and our report dated March 11, 2016 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Boston, Massachusetts

March 11, 2016

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## UFP TECHNOLOGIES, INC.

## Consolidated Balance Sheets

(In thousands, except share data)

	December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,804	\$ 34,052
Receivables, net	17,481	16,470
Inventories	14,202	12,893
Prepaid expenses	930	664
Refundable income taxes	1,186	3,192
Total current assets	63,603	67,271
Property, plant and equipment	90,564	75,823
Less accumulated depreciation and amortization	(44,009)	(40,980)
Net property, plant and equipment	46,555	34,843
Goodwill	7,322	7,322
Intangible assets, net	636	953
Other assets	1,834	2,159
Total assets	\$ 119,950	\$ 112,548
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,598	\$ 5,398
Accrued expenses	5,374	5,222
Current installments of long-term debt	1,011	993
Total current liabilities	10,983	11,613
Long-term debt, excluding current installments	859	1,873
Deferred income taxes	2,883	2,446
Other liabilities	1,653	1,624
Total liabilities	16,378	17,556
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 1,000,000 shares; zero shares issued or outstanding	-	-
Common stock, \$.01 par value. Authorized 20,000,000 shares; issued and outstanding 7,170,377 shares at December 31, 2015 and 7,068,815 shares at December 31, 2014	72	71
Additional paid-in capital	23,705	22,132
Retained earnings	80,382	72,789
Treasury stock at cost (29,559 shares at December 31, 2015 and zero shares at December 31, 2014)	(587)	-
Total stockholders' equity	103,572	94,992

Total liabilities and stockholders' equity	\$ 119,950	\$ 112,548
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The accompanying notes are an integral part of these consolidated financial statements.

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UFP TECHNOLOGIES, INC.

Consolidated Statements of Operations

(In thousands, except per share data)

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

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

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UFP TECHNOLOGIES, INC.

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2015, 2014 and 2013

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance at December 31, 2012	6,750	\$ 67	\$ 19,239	\$ 53,954	-	\$ -	\$ 73,260
Share-based compensation	38	1	923	-	-	-	924
Exercise of stock options net of shares presented for exercise	113	1	190	-	-	-	191
Net share settlement of restricted stock units and stock option tax w/h	-	-	(879)	-	-	-	(879)
Excess tax benefits on share-based compensation	-	-	818	-	-	-	818
Net income	-	-	-	11,276	-	-	11,276
Balance at December 31, 2013	6,901	\$ 69	\$ 20,291	\$ 65,230	-	-	\$ 85,590
Share-based compensation	20	1	1,118	-	-	-	1,119
Exercise of stock options net of shares presented for exercise	148	1	335	-	-	-	336
Net share settlement of restricted stock units and stock option tax w/h	-	-	(831)	-	-	-	(831)
Excess tax benefits on share-based compensation	-	-	1,219	-	-	-	1,219
Net income	-	-	-	7,559	-	-	7,559
Balance at December 31, 2014	7,069	\$ 71	\$ 22,132	\$ 72,789	-	-	\$ 94,992



Share-based compensation	24	-	1,069	-	-	-	1,069
Exercise of stock options net of shares presented for exercise	77	1	357	-	-	-	358
Net share settlement of restricted stock units and stock option tax w/h Excess tax benefits on share-based compensation	-	-	(209)	-	-	-	(209)
Repurchase of common stock	-	-	-	-	30	(587)	(587)
Net income	-	-	-	7,593	-	-	7,593
Balance at December 31, 2015	7,170	\$ 72	\$ 23,705	\$ 80,382	30	\$ (587)	\$ 103,572

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

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## UFP TECHNOLOGIES, INC.

## Consolidated Statement of Cash Flows

(In thousands)

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

Cash and cash equivalents at end of year	\$ 29,804	\$ 34,052	\$ 37,303
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The accompanying notes are an integral part of these consolidated financial statements.

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

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

(d) Fair Value of Financial Instruments

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

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents primarily consisted of money market accounts and certificates of deposit that are readily convertible into cash.

The Company maintains its cash in bank deposit accounts, money market funds, and certificates of deposit that at times exceed federally insured limits. The Company periodically reviews the financial stability of institutions holding its accounts, and does not believe it is exposed to any significant

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custodial credit risk on cash. The Company's main operating account with Bank of America exceeds federal depository insurance limit by approximately \$20.4 million.

(f) Accounts Receivable

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

(g) Inventories

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

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

(h) Property, Plant, and Equipment

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

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

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

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

(i) Goodwill

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair

value of the reporting unit. The Company consists of a single reporting unit. We last performed “step 1” of the goodwill impairment test as of September 30, 2014. We utilized the guideline public company (“GPC”) method under the market approach and the discounted cash flows method (“DCF”) under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit’s carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded

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companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

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

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

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

### (j) Intangible Assets

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

### (k) Revenue Recognition

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

### (l) Share-Based Compensation

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





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

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

The compensation expense for stock options granted during the three-year period ended December 31, 2015, was determined as the fair value of the options using the Black Scholes valuation model. 2013 compensation expense for stock options granted prior to January 1, 2012, was determined as the fair value of the options using a lattice-based option valuation model. The assumptions are noted as follows:

	Year Ended December 31,					
	2015		2014		2013	
Expected volatility	31.5% - 32.3	%	32.8% - 37.9	%	34.0% - 50.0	%
Expected dividends	None		None		None	
Risk-free interest rate	1.0% - 1.2	%	0.7% - 0.9	%	0.4% - 0.7	%
Exercise price	\$ 19.97 - \$22.36		\$ 22.55 - \$25.48		\$ 18.85 - \$21.67	
Expected term	5.0 years		3.8 to 5.0 years		3.3 to 5.0 years	
Weighted-average grant - date fair value	\$ 6.04		\$ 7.24		\$ 5.84	

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

The total income tax benefit recognized in the statement of operations for share-based compensation arrangements was approximately \$312,000, \$320,000 and \$280,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

## (m) Deferred Rent

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

## (n) Shipping and Handling Costs

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

(o) Research and Development

On a routine basis, the Company incurs costs related to research and development activity. These costs are expensed as incurred. Approximately \$1.4 million, \$1.2 million and \$1.2 million were expensed in the years ended December 31, 2015, 2014 and 2013, respectively.

(p) Income Taxes

The Company's income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of

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existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax expense (benefit) results from the net change during the year in deferred tax assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

### (q) Segments and Related Information

The Company follows the provisions of ASC 280, Segment Reporting, which establish standards for the way public business enterprises report information and operating segments in annual financial statements (see Note 17).

### (r) Treasury Stock

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

## Recent Accounting Pronouncements

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

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



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

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

## (2) Supplemental Cash Flow Information

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

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

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

## (3) Receivables

Receivables consist of the following (in thousands):

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

Receivables are written off against these reserves in the period they are determined to be uncollectible, and payments subsequently received on previously written-off receivables are recorded as a reversal of the bad debt provision. The Company performs credit evaluations on its customers and obtains credit insurance on a large percentage of its accounts, but does not generally require collateral. The Company recorded a provision for doubtful accounts of approximately \$16,000 and \$171,000 for the years ended December 31, 2015 and 2014, respectively.

## (4) Inventories

Inventories consist of the following (in thousands):

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

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## (5) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2015 and 2014 are as follows (in thousands):

	Patents	Non-Compete	Customer List	Total
Estimated useful life	14 years	5 years	5 years	
Gross amount at December 31, 2015	\$ 429	\$ 512	\$ 2,046	\$ 2,987
Accumulated amortization at December 31, 2015	(429)	(387)	(1,535)	(2,351)
Net balance at December 31, 2015	\$ -	\$ 125	\$ 511	\$ 636
Gross amount at December 31, 2014	\$ 429	\$ 512	\$ 2,046	\$ 2,987
Accumulated amortization at December 31, 2014	(429)	(325)	(1,280)	(2,034)
Net balance at December 31, 2014	\$ -	\$ 187	\$ 766	\$ 953

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

2016	318
2017	318
Total	\$ 636

## (6) Property, Plant, and Equipment

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

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



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

(7) Indebtedness

On December 2, 2013, the Company entered into an unsecured \$40 million revolving credit facility with Bank of America, N.A. The credit facility calls for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the credit facility, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The credit facility was amended effective December 31, 2014, to modify the definition of "consolidated fixed-charge coverage ratio". The Company was in compliance with all covenants at December 31, 2015. The Company's \$40 million credit facility matures on November 30, 2018.

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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, 2015, the Company had no borrowings outstanding under the credit facility.

On October 11, 2012, the Company entered into a loan agreement to finance the purchase of two new molded fiber machines. The annual interest rate is fixed at 1.83%. As of December 31, 2015, approximately \$5.0 million had been advanced on the loan and the outstanding balance was approximately \$1.9 million. The loan will be repaid over a five-year term. The loan is secured by the related molded fiber machines.

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

	December 31,	
	2015	2014
Equipment loans	\$ 1,870	\$ 2,866
Total long-term debt	1,870	2,866
Current installments	(1,011)	(993)
Long-term debt, excluding current installments	\$ 859	\$ 1,873

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

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

## (8) Accrued Expenses

Accrued expenses consist of the following (in thousands):

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

Other	1,418	1,490
	\$ 5,374	\$ 5,222

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## (9) Income Taxes

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

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

At December 31, 2015, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$415,000, which are available to offset future taxable income and expire during the federal tax year ending December 31, 2019. The future benefit of the federal net operating loss carryforwards will be limited to approximately \$300,000 per year in accordance with Section 382 of the Internal Revenue Code.

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

	December 31,	
	2015	2014
Deferred tax assets:		
Reserves	\$ 532	\$ 428
Inventory capitalization	407	264
Compensation programs	501	404
Retirement liability	27	35
Equity-based compensation	290	276
Net operating loss carryforwards	141	242
Deferred rent	10	36
Intangible assets	264	188
Total deferred tax assets	2,172	1,873
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	(4,186)	(3,471)
Goodwill	(869)	(848)

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Total deferred tax liabilities	(5,055)	(4,319)
Net long-term deferred tax liabilities	\$ (2,883)	\$ (2,446)

The amounts recorded as deferred tax assets as of December 31, 2015, and 2014, represent the amount of tax benefits of existing deductible temporary differences or carryforwards that are more likely than not to be realized through the generation of sufficient future taxable income within the carryforward period. The Company has total deferred tax assets of \$2.2 million at December 31, 2015, that it believes are more likely than not to be realized in the carryforward period. Management reviews the recoverability of deferred tax assets during each reporting period.

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The actual tax provision for the years presented differs from the “expected” tax provision for those years, computed by applying the U.S. federal corporate rate of 34.0% to income before income tax expense as follows:

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

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan which have been audited through 2004, income tax returns filed in Massachusetts which have been audited through 2007 and income tax returns filed in Florida which have been audited through 2009. The Company’s federal tax return for 2008 has been audited. Federal and state tax returns for the years 2012 through 2014 remain open to examination by the IRS and various state jurisdictions.

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

	December 31,	
	2015	2014
Gross UTB balance at beginning of fiscal year	\$ 230	\$ 275
Increases for tax positions of prior years	-	-
Reductions for tax positions of prior years	(68)	(45)
Gross UTB balance at end of fiscal year	\$ 162	\$ 230

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

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

At December 31, 2015, all of the unrecognized tax benefits relate to tax returns of a specific state jurisdiction that are currently under examination. Accordingly, the Company expects a reduction of this amount during 2016, since the Company expects to resolve this examination in 2016.

(10) Net Income Per Share

Basic income per share is based upon the weighted average common shares outstanding during each year. Diluted income per share is based upon the weighted average of common shares and dilutive common stock equivalent shares outstanding during each year. The weighted average number of

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shares used to compute both basic and diluted income per share consisted of the following (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Basic weighted average common shares outstanding during the year	7,115	7,028	6,824
Weighted average common equivalent shares due to stock options and restricted stock units	104	147	281
Diluted weighted average common shares outstanding during the year	7,219	7,175	7,105

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock options, when the average market price of the common stock is lower than the exercise price of the related options during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would have been antidilutive. For the years ended December 31, 2015, 2014 and 2013, the number of stock awards excluded from the computation was 72,495, 53,651 and 78,908, respectively.

#### (11) Stock Option and Equity Incentive Plans Incentive Plan

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

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



Through December 31, 2015, 1,178,449 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 40,645 shares are being reserved for outstanding grants of RSUs and other share-based compensation that are subject to various performance and time-vesting contingencies. The Company has also granted awards in the form of stock options under this Plan. Through December 31, 2015, 170,000 options have been granted and 105,000 options are outstanding. At December 31, 2015, 882,156 shares or options are available for future issuance in the 2003 Incentive Plan.

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## Director Plan

Effective July 15, 1998, the Company adopted the 1998 Director Plan, which was amended and renamed, on June 3, 2009, the 2009 Non-Employee Director Stock Incentive Plan (the “Director Plan”). The Director Plan was amended on March 7, 2013, to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company’s shareholders, and (ii) prohibit the Company from buying out underwater stock options. The Director Plan, as amended, provides for the issuance of stock options and other equity-based securities of up to 975,000 shares to non-employee members of the Company’s board of directors. Through December 31, 2015, 308,626 options have been granted and 165,205 options are outstanding. For the year ended December 31, 2015, 5,647 shares of common stock were issued and 153,202 shares remained available to be issued under the Director Plan.

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

	Shares Under Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2014	340,107	\$ 12.84		
Granted	18,844	20.14		
Exercised	(78,746)	5.03		
Cancelled or expired	(10,000)	18.85		
Outstanding December 31, 2015	270,205	\$ 15.40	3.80	\$ 2,311
Exercisable at December 31, 2015	222,706	\$ 14.20	4.04	\$ 2,166
Vested and expected to vest at December 31, 2015	270,205	\$ 15.40	3.80	\$ 2,311

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

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

On February 24, 2015, the Company's Compensation Committee approved the award of \$400,000 payable in shares of the Company's common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Equity Incentive Plan. The shares were issued on December 22, 2015. The Company has recorded compensation expense of \$400,000 for the year ended December 31, 2015. Stock compensation expense of \$400,000 was also recorded in both 2014 and 2013 for similar awards.

On December 16, 2015, the Company issued 391 shares of unrestricted common stock to a non-employee member of the Company's Board of Directors as part of their retainer for serving on the

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Board. Based upon the closing price of \$22.36 on December 16, 2015, the Company recorded compensation expense of \$8,750 associated with the stock issuance for the year ended December 31, 2015.

On June 10, 2015, the Company issued 5,256 shares of unrestricted common stock to the non-employee members of the Company's Board of Directors as part of their annual retainer for serving on the Board. Based upon the closing price of \$19.97 on June 10, 2015, the Company recorded compensation expense of \$105,000 associated with the stock issuance for the year ended December 31, 2015. The Company recorded compensation expense of \$122,000 and \$60,000 for similar awards in 2014 and 2013, respectively.

The Company grants RSUs to its executive officers. The stock unit awards are subject to various time-based vesting requirements, and certain portions of these awards are subject to performance criteria of the Company. Compensation expense on these awards is recorded based on the fair value of the award at the date of grant, which is equal to the Company's closing stock price, and is charged, to expense ratably during the service period. No compensation expense is taken on awards that do not become vested, and the amount of compensation expense recorded is adjusted based on management's determination of the probability that these awards will become vested. The following table summarizes information about stock unit award activity during the year ended December 31, 2015:

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

The Company recorded approximately \$274,000, \$237,000, and \$250,000 in compensation expense related to these RSUs during the years ended December 31, 2015, 2014 and 2013, respectively.

At the Company's discretion, RSU holders are given the option to net-share settle to cover the required minimum withholding tax, and the remaining amount is converted into the equivalent number of common shares. During the year ended December 31, 2015, 3,405 shares were redeemed for this purpose at an average market price of \$23.15. During the years ended December 31, 2014 and 2013, 9,878 and 22,089 shares were redeemed for this purpose at an average market price of \$25.88 and \$19.29, respectively.

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

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

Tax benefits totaling approximately \$356,000, \$1,219,000, and \$818,000 were recognized as additional paid-in capital during the years ended December 31, 2015, 2014 and 2013, respectively, since the

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Company's tax deductions exceeded the share-based compensation charge recognized for stock options exercised and RSUs vested.

## (12) Preferred Stock

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

## (13) Supplemental Retirement Benefits

The Company provides discretionary supplemental retirement benefits for certain retired officers, which will provide an annual benefit to these individuals for various terms following separation from employment. The Company recorded an expense of approximately \$4,000, \$23,000, and \$17,000 for the years ended December 31, 2015, 2014 and 2013, respectively. The present value of the supplemental retirement obligation has been calculated using a 4.0% discount rate, and is included in retirement and other liabilities. Total projected future cash payments for the years ending December 31, 2016 through 2019, are approximately \$25,000 for each year.

## (14) Commitments and Contingencies

(a) Leases – The Company has operating leases for certain facilities that expire through 2017. Certain of the leases contain escalation clauses that require payments of additional rent, as well as increases in related operating costs.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2015, are as follows (in thousands):

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

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

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

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

(15) Employee 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.

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Contributions were approximately \$750,000, \$750,000 and \$800,000 in 2015, 2014 and 2013, respectively.

The Company has a partially self-insured health insurance program that covers all eligible participating employees. The maximum liability is limited by a stop loss of \$200,000 per insured person, along with an aggregate stop loss determined by the number of participants.

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

The compensation withheld from Plan participants, together with gains or losses determined by the participants’ deferral elections is reflected as a deferred compensation obligation to participants, and is classified within other liabilities in the accompanying balance sheets. At December 31, 2015 and 2014, the balance of the deferred compensation liability totaled approximately \$1.5 million for each period. The related assets, which are held in the form of a Company-owned, variable life insurance policy that names the Company as the beneficiary, are reported within other assets in the accompanying balance sheets, and are accounted for based on the underlying cash surrender values of the policies, and totaled approximately \$1.7 million and \$2.0 million as of December 31, 2015 and 2014, respectively.

### (16) Fair Value of Financial Instruments

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

#### Level 1

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

#### Level 2

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

#### Level 3

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



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

(17) Segment Data

The Company consists of a single operating and reportable segment.

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

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

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

## (18) Quarterly Financial Information (unaudited)

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

2015	Q1	Q2	Q3	Q4
Net sales	\$ 33,977	\$ 36,499	\$ 34,441	\$ 33,933
Gross profit	8,638	10,293	9,510	9,013
Net income	1,653	2,272	1,992	1,676
Basic net income per share	0.23	0.32	0.28	0.24
Diluted net income per share	0.23	0.32	0.28	0.23
2014	Q1	Q2	Q3	Q4
Net sales	\$ 34,609	\$ 34,025	\$ 35,406	\$ 35,267
Gross profit	9,177	9,545	9,752	8,406
Net income	2,062	1,860	2,066	1,571
Basic net income per share	0.30	0.27	0.29	0.22
Diluted net income per share	0.29	0.26	0.29	0.22

## (19) Plant Consolidation

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

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

The Company expects to incur approximately \$2.1 million in one-time expenses in connection with the Massachusetts consolidations. Included in this amount are approximately \$180,000 relating to employee severance payments and relocation costs, approximately \$1.5 million in moving expenses and expenses associated with vacating the Raritan, Haverhill and Byfield properties, and approximately

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\$360,000 in lease termination costs. Total cash charges are estimated at \$2.0 million. The Company expects annual cost savings of approximately \$1.0 million as a result of these consolidations. The actual costs incurred through December 31, 2015 are included in the table below.

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

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

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

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

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

## (20) Related Party Transactions

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

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Schedule II

UFP TECHNOLOGIES, INC.

Consolidated Financial Statement Schedule

Valuation and Qualifying Accounts

Years ended December 31, 2015, 2014 and 2013

Accounts receivable, allowance for doubtful accounts:

	2015	2014	2013
Balance at beginning of year	\$ 502	\$ 512	\$ 495
Provision credited to expense	16	63	22
Recoveries, net of write-offs	(19)	(73)	(5)
Balance at end of year	\$ 499	\$ 502	\$ 512

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Exhibit Index

Number	Description of Exhibit
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 (SEC File No. 001-12648)).
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 (SEC File No. 001-12648)).
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 (SEC File No. 001-12648)).
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 Exhibit A, the Form of Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock, as Exhibit B, the Form of Rights Certificate, and as Exhibit C, 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 (SEC File No. 001-12648)).
10.01	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).
10.02	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 (SEC File No. 001-12648)).
10.03	Amendment to Facility Lease between the Company and Raritan Johnson Associates, LLC (incorporated by reference to Exhibit 10.05 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 13, 2015 (SEC File No. 001-12648)).
10.04	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).

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Number Description of Exhibit

- 10.05 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). #
- 10.06 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 (SEC File No. 001-12648)).
- 10.07 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 (SEC File No. 001-12648)).
- 10.08 Amendment to Facility Lease between Simco Automotive Trim, Inc. and Max Warehousing, L.L.C., successor in interest to Insite Atlanta, LLC (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 13, 2015 (SEC File No. 001-12648)).
- 10.09 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 (SEC File No. 001-12648)). #
- 10.10 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 (SEC File No. 001-12648)). #
- 10.11 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 (SEC File No. 001-12648)). #
- 10.12 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 (SEC File No. 001-12648)).
- 10.13 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 (SEC File No. 001-12648)). #
- 10.14 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 (SEC File No. 001-12648)). #



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Number	Description of Exhibit
10.15	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 (SEC File No. 001-12648)).
10.16	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 (SEC File No. 001-12648)).
10.17	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 (SEC File No. 001-12648)). #
10.18	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 (SEC File No. 001-12648)). #
10.19	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 (SEC File No. 001-12648)). #
10.20	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 (SEC File No. 001-12648)).
10.21	Amendment to Credit Agreement between the Company and Bank of America, N.A., dated March 9, 2015 (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 13, 2015 (SEC File No. 001-12648)).
10.22	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 (SEC File No. 001-12648)). #
10.23	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 (SEC File No. 001-12648)). #
10.24	Form of 2016 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 26, 2016 (SEC File No. 001-12648)). #
10.25	Form of 2016 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 26, 2016 (SEC File No. 001-12648)). #
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. †

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Number	Description of Exhibit
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. *

†Filed herewith.

††Furnished herewith.

\*Previously filed.

\*\*Previously furnished.

#Indicates management contract or compensatory plan or arrangement.