

UFP TECHNOLOGIES INC  
Form 10-K  
March 30, 2010

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

WASHINGTON, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended December 31, 2009**

**OR**

**o** **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  
incorporation or organization)

**04-2314970**

(I.R.S. Employer  
Identification No.)

**172 East Main Street, Georgetown, Massachusetts USA**  
(Address of principal executive offices)

**01833-2107**  
(Zip Code)

**(978) 352-2200**

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(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

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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As of June 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$16,673,553, based on the closing price of \$4.17 on that date as reported on the Nasdaq Capital Market.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

As of March 10, 2010, there were 6,085,821 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 2009 Annual Meeting of Shareholders. | Part III   |

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**PART I**



## Edgar Filing: UFP TECHNOLOGIES INC - Form 10-K

This report contains certain statements that are forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995 and releases issued by the Securities and Exchange Commission. The words believe, expect, anticipate, intend, estimate and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements.

Examples of these risks, uncertainties, and other factors include, without limitation, the following: (i) economic conditions that affect sales of the products of the Company's customers, (ii) actions by the Company's competitors and the ability of the Company to respond to such actions, (iii) the ability of UFP Technologies, Inc. (the Company or UFPT) to obtain new customers, and (iv) the ability of the Company to execute and integrate favorable acquisitions. In addition to the foregoing, the Company's actual future results could differ materially from those projected in the forward-looking statements as a result of risk factors set forth elsewhere in this report and changes in general economic conditions, interest rates and the assumptions used in making such forward-looking statements. The Company's forward-looking statements set forth in this report represent estimates and assumptions only as of the date that they are made. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

### **ITEM 1. BUSINESS**



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The Company's principal executive offices are located at 172 East Main Street, Georgetown, Massachusetts 01833; telephone number 978-352-2200; corporate website [www.ufpt.com](http://www.ufpt.com). We make available through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as practicable after we electronically file such material with, or furnish it to the Securities and Exchange Commission. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

The Company designs and manufactures engineered packaging solutions utilizing molded and fabricated foams, vacuum-formed plastics, and molded fiber. The Company also designs and manufactures engineered component products using laminating, molding, and fabricating technologies. The Company serves a myriad of manufacturing sectors, but specifically targets opportunities in the medical and scientific, automotive, aerospace and defense, computer and electronics, industrial, and consumer markets.

The Company's high-performance packaging solutions are made primarily from polyethylene and polyurethane foams, and a wide range of sheet plastics. These solutions are custom designed and fabricated or molded to provide protection for fragile and valuable items, and are sold primarily to original equipment and component manufacturers. Molded fiber products are made primarily from 100% recycled paper principally derived from waste newspaper. These products are custom designed, engineered and molded into shapes for packaging high volume consumer goods, including computer components, light electronics, candles, and health and beauty products.



In addition to packaging solutions, the Company fabricates and molds component products made from cross-linked polyethylene foams, reticulated polyurethane foams, and other specialty materials. The Company also laminates fabrics and other materials to cross-linked polyethylene foams, polyurethane foams and other substrates. The Company's component products include automotive interior trim, athletic padding, industrial safety belts, medical device components, air filtration, high-temperature insulation, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

Unless the context otherwise requires, the term "Company" or "UFPT" refers to UFP Technologies, Inc. and its wholly-owned subsidiaries, Moulded Fibre Technology, Inc. ("MFT"), Simco Technologies, Inc. and Simco Automotive Trim, Inc. (collectively "Simco") and Stephenson & Lawyer, Inc. ("S&L"), as well as Patterson Properties Corporation, S&L's wholly-owned subsidiary, and United Development Company Limited ("UDT"), of which the Company owns 26.32%.

Wine Packs®, T-Tubes®, and Pro-Sticks® 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.

## Market Overview

### Packaging

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, medical devices, 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, light electronics, computers and computer peripherals, 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.



### Component Products

Component Products applications of foam and other types of plastics are numerous and diverse. Examples include automotive interior components, medical devices, toys, gaskets, health and beauty products, and carrying cases. Cross-linked polyethylene foams have many of the same properties as traditional polyethylene foams, including light weight, durability, resiliency, and flexibility. Cross-linked foams 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 light weight, flexible and durable insoles for athletic and walking shoes, weight lifting and industrial safety belts, 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.

### **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 employs one or more of these techniques to create environmentally responsible packaging solutions.

### **Products**

The Company's products include foam, plastic, and fiber packaging solutions, and component products.



### Packaging Solutions

The Company designs, manufactures, and markets a broad range of packaging solutions primarily using polyethylene, polyurethane, and 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 end-cap packs for computers, corner blocks for telecommunications consoles, anti-static foam packs for printed circuit boards, die-cut or routed inserts for cases, molded foam enclosures for orthopedic products, and plastic trays for medical devices and components. 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 that its engineering expertise, breadth of material offerings, and manufacturing capabilities have enabled it to provide unique solutions to achieve these goals.

The markets for the Company's molded fiber packaging and vacuum-formed trays are characterized by high volume production runs and require rapid manufacturing turnaround times. Raw materials used in the manufacture of molded fiber are primarily recycled newspaper, 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.

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.

### Component Products

The Company specializes in engineered products that use the Company's close tolerance manufacturing capabilities, its expertise in various foam materials and lamination techniques, and the Company's ability to manufacture in clean room environments. The Company's component products are sold primarily to customers in the automotive, sporting goods, medical, beauty, leisure, and footwear industries. These products include automotive interior trim, athletic and industrial safety belts, components for medical equipment and devices, cosmetic applicators, air conditioner filters, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

The Company believes that 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 that 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 the Company to achieve adhesive bonds between cross-linked foam and fabric and other materials that do not easily combine. These specialty 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); and Pro-Sticks (sanitary solution for nail care services).

### **Marketing and Sales**

The Company goes to market through three major brands: United Foam, Simco Automotive, and Molded Fiber. Each brand represents specific materials, capabilities, and services the Company offers. The Company markets its brands through websites, online advertising and directories, press releases, and trade shows and expositions.

The Company markets and sells its packaging and component 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 the Company's 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. The Company believes that its sales are somewhat seasonal, with increased sales in the second and fourth quarters.

The top customer in the Company's Component Products segment, Recticel Interiors North America, comprised 13.0% of that segment's total sales and 8.0% of the Company's total sales for the year ended December 31, 2009. The top customer in the Packaging segment, Stephen Gould Corporation, comprised 10.6% of that segment's total sales and 4.1% of the Company's total sales for the year ended December 31, 2009. The loss of either Recticel or Stephen Gould Corp. as a customer could have a material adverse effect on the Company.

### **Manufacturing**



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The Company's manufacturing operations consist primarily of cutting, 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, waterjets 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 conveyORIZED 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 foam, the Company's relationships with such suppliers are good, and the Company expects that these suppliers will be able to meet the Company's requirements for cross-linked foam. Any delay or interruption in the supply of raw materials could have a material adverse effect on the Company's business.

#### **Research and Development**



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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.

### **Competition**



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The packaging industry is highly competitive. While there are several national companies that sell interior packaging, the Company's primary competition for its packaging products 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 component products industry is also highly competitive. The Company's component products face competition primarily from smaller companies that typically concentrate on production of component products for specific industries. The Company believes that 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 component products market. The Company's component products also compete with products made from a wide range of other materials, including rubber, leather and other foams.

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



**Patents and Other Proprietary Rights**





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The Company relies upon trade secrets, patents, and trademarks to protect its technology and proprietary rights. The Company believes that 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 four U.S. patents relating to its molded fiber technology (including certain proprietary machine designs), and has patents with respect to such technology in certain foreign countries. The Company also has a total of fourteen U.S. patents relating to technologies including foam and packaging, rubber mat, patterned nail file, and superforming process technologies. There can be no assurance that any patent or patent application of the Company 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 US patents range from 2010 through 2023.

### **Environmental Considerations**



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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 participates in a recovery and reuse program for certain of its plastic packaging products. 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**



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The Company's backlog, as of February 15, 2010, and February 16, 2009, totaled approximately \$10.1 million and \$8.5 million, respectively, for the Packaging segment, and \$15.5 million and \$14.5 million, respectively, for the Component Products segment. 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**



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As of January 31, 2010, the Company had a total of 603 full-time employees (as compared to 586 full-time employees as of January 31, 2009), with 359 full-time employees in the Component Products segment (30 in engineering, 268 in manufacturing operations, 28 in marketing, sales and support services, and 33 in general and administration) and 244 full-time employees in the Packaging segment (32 in engineering, 176 in manufacturing, 17 in marketing, sales and support services, and 19 in general and administration). The Company is not a party to any collective bargaining agreement. The Company considers its employee relations to be good.

**ITEM 1A. RISK FACTORS**





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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 single 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 represent approximately 32.1% and 40.0% of our total revenues in 2009 and 2008, respectively. A single automotive program accounted for approximately 13.0% and 31.0%, respectively, of our Component Products segment sales and approximately 8.0% and 18.0% of our total sales in 2009 and 2008, respectively. The program is scheduled to phase out beginning in 2011. It is uncertain at this time whether the phase-out will occur according to this schedule. It is also uncertain whether the next generation of automobiles in this program will require the same design of parts and, if so, whether we will be selected as the supplier. We expect sales from this program to decline over the next two years. Our revenues are directly dependent on the ability of our customers to develop, market, and sell their products in a timely, cost-effective manner. 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 financial results. 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.

**We may pursue acquisitions or joint ventures 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 entering into joint ventures and other business combinations that we expect will complement and expand our business. For example, during 2009 we acquired selected assets of Foamade Industries, Inc., E.N. Murray Co., and Advanced Materials, Inc., and during 2008 we acquired Stephenson & Lawyer, Inc., as discussed in Note 19 of the *Notes to Consolidated Financial Statements*. We may not be able to successfully identify suitable acquisition or joint venture opportunities or complete any particular acquisition, combination, joint venture or other transaction on acceptable terms. Our identification of suitable acquisition candidates and joint venture 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 joint ventures, 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 joint ventures 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 joint venture opportunities may restrict our ability to grow our business.

**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.

**The recent worldwide financial unrest and associated economic uncertainty may continue to harm our business and prospects.**

The recent worldwide financial unrest and associated economic uncertainty has and may continue to adversely affect sales of our products. The resulting tightening of credit markets may make it difficult for our customers and potential customers to obtain financing on reasonable terms, if at all. Additionally, even if our customers (particularly those in the automotive industry) are able to obtain financing, there is no assurance that they will pay their obligations within agreed-upon terms, if at all. In addition, a slow-down or contraction of the United States economy may reduce needs for our products and, therefore, adversely affect sales of our products. These factors have and could continue to result in increased pressure on the pricing of our products.

**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 and, in particular, a prolonged armed conflict in the Middle East, or a natural disaster such as the recent hurricanes and related flooding in the oil producing region of the Gulf Coast of the United States, 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 and results of operations.

**Our Packaging segment may lose business if our customers shift their manufacturing offshore.**

Historically, geography has played 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, 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 and results of operations.

**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.

**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 19% of our outstanding shares of common stock as of March 10, 2010. 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.

**As a public company, we need to comply with the reporting obligations of the Securities Exchange Act of 1934 and Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act, or if we fail to maintain adequate internal controls over financial reporting, our business, results of operations and financial condition, 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. 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 in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud.

**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. 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.

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 negation, purchase, or redemption of the rights with respect to which the condition is satisfied.

Additional provisions of our certificate of incorporation and bylaws could have the effect of making it more difficult 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.

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.

**ITEM 2.            PROPERTIES**





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

| Location                     | Square Feet | Lease Expiration Date  | Principal Use  |
|------------------------------|-------------|------------------------|--|
| Georgetown, Massachusetts(1) | 57,600      | (owned by the Company) | Headquarters, fabrication, molding, test lab, clean room, and engineering for Component Products segment |
| Haverhill, Massachusetts     | 48,772      | 02/28/2013             | Flame lamination for the Component Products segment  |
| Atlanta, Georgia             | 47,000      | 04/30/2011             | Fabrication and engineering for the Component Products segment   |
| Ventura, California          | 48,300      | month-to-month         | Fabrication and engineering for the Component Products segment   |
| Grand Rapids, Michigan(1)    | 255,260     | (owned by the Company) | Fabrication and engineering for the Component Products segment   |
| Rancho Dominguez, California | 56,000      | 11/14/2010             | Fabrication and engineering for the Component Products segment   |
| Denver, Colorado             | 18,270      | 07/07/2011             | Fabrication and engineering for the Component Products segment   |
| Denver, Colorado             | 28,383      | 07/07/2011             | Fabrication and engineering for the Component Products segment   |
| Raritan, New Jersey          | 67,125      | 02/28/2013             | Fabrication, molding, test lab, clean-room, and engineering for the Packaging segment                    |
| Kissimmee, Florida(2)        | 49,400      | 12/31/2011             | Fabrication, molding, test lab, and engineering for the Packaging segment                                |
| El Paso, Texas               | 40,000      | 06/30/2010             | Warehousing and fabrication for the Packaging segment  |
| Decatur, Alabama(2)          | 47,250      | 12/31/2011             | Fabrication and engineering for the Packaging segment  |
| Decatur, Alabama             | 14,000      | month-to-month         | Warehousing and fabrication for the Packaging segment  |
| Glendale Heights, Illinois   | 78,913      | 07/31/2014             | Fabricating and engineering for the Packaging segment  |
| Clinton, Iowa                | 60,000      | 12/31/2014             | Molded fiber operations for the Packaging segment  |
| Clinton, Iowa                | 62,000      | 02/28/2015             | Molded fiber operations for the Packaging segment  |

(1) Subject to mortgage (see Note 9 to the Consolidated Financial Statements).

(2) United Development Company Limited, a Florida limited partnership and an affiliate of the Company and certain officers, directors and stockholders of the Company, is the lessor of these properties. United Development Company Limited was consolidated into the Company's financial statements in 2003 (see Note 8 to the Consolidated Financial Statements).



**ITEM 3. LEGAL PROCEEDINGS**



The Company is not a party to any material pending legal proceedings.

**PART II**



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





**Market Price**



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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, 2008, to December 31, 2009:

| <b>Fiscal Year Ended December 31, 2008</b> | <b>High</b> | <b>Low</b> |
|--|-------------|------------|
| First Quarter                              | \$ 8.20     | \$ 5.20    |
| Second Quarter                             | 14.63       | 7.36       |
| Third Quarter                              | 12.18       | 6.71       |
| Fourth Quarter                             | 7.09        | 3.92       |

  

| <b>Fiscal Year Ended December 31, 2009</b> | <b>High</b> | <b>Low</b> |
|--|-------------|------------|
| First Quarter                              | \$ 6.10     | \$ 3.47    |
| Second Quarter                             | 5.20        | 4.03       |
| Third Quarter                              | 6.46        | 4.09       |
| Fourth Quarter                             | 7.10        | 5.91       |

### Number of Stockholders



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As of February 16, 2010, there were 84 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**



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The Company did not pay any dividends in 2008 or 2009. The Company presently intends to retain all of its earnings to provide funds for the operation of its business, although it would consider paying cash dividends in the future. The Company's ability to pay dividends is subject to approval by its principal lending institution.

### **Stock Plans**





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The Company maintains two active stock option plans to provide long-term rewards and incentives to the Company's key employees, officers, employee directors, non-employee directors, and

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advisors. The 1993 Employee Stock Option Plan provides for the issuance of up to 1,550,000 shares of the Company's common stock. The 2009 Non-Employee Director Stock Incentive Plan provides for the issuance of up to 975,000 shares of the Company's common stock to non-employee directors. Additional details of these plans are discussed in Note 13 to the consolidated financial statements.

The Company also maintains the 2003 Incentive Plan, which provides the Company with the ability to offer equity-based incentives to present and future executives and other employees who are in a position to contribute to the long-term success and growth of the Company.

Each of these plans and their amendments has been approved by the Company's stockholders.

Summary plan information as of December 31, 2009, is as follows:

|                              | Number of shares<br>of UFPT common<br>stock to be issued (1) | Weighted average<br>exercise price of<br>outstanding options | Number of shares of<br>UFPT common stock<br>remaining available<br>for<br>future issuance |
|------------------------------|--|--|---|
| 1993 Employee Plan           | 605,000  | \$ 2.33  | 312,293   |
| 1998 Director Plan           | 391,609  | 4.12   | 282,089   |
| <b>Total Option Plans</b>    | <b>996,609</b>   | <b>\$ 3.03</b>   | <b>594,382</b>  |
| 2003 Incentive Plan          | 276,124  |  | 297,918   |
| <b>Total All Stock Plans</b> | <b>1,272,733</b>   |  | <b>892,300</b>  |

(1) Will be issued upon exercise of outstanding options or vesting of stock unit awards.

### ITEM 6. SELECTED FINANCIAL DATA



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The following selected financial data for the five years ended December 31, 2009, is derived from the audited consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements and the related notes included in this report, and in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Selected Consolidated Financial Data:

| Consolidated statement of operations data(1)          | Years Ended December 31<br>(in thousands, except per share data) |          |        |        |        |
|---|--|----------|--------|--------|--------|
|   | 2009   | 2008     | 2007   | 2006   | 2005   |
| Net sales   | \$ 99,231  | 110,032  | 93,595 | 93,749 | 83,962 |
| Gross profit  | 26,719   | 28,563   | 22,810 | 19,237 | 14,601 |
| Operating income                                      | 8,180  | 8,425(2) | 7,247  | 5,054  | 2,171  |
| Net income attributable to UFP Technologies, Inc.     | 5,929  | 5,116    | 4,159  | 2,515  | 659    |
| Diluted earnings per share                            | 0.94   | 0.82     | 0.71   | 0.45   | 0.14   |
| Weighted average number of diluted shares outstanding | 6,294  | 6,263    | 5,861  | 5,571  | 5,261  |

| Consolidated balance sheet data   | As of December 31<br>(in thousands) |        |        |        |        |
|---|-------------------------------------|--------|--------|--------|--------|
|   | 2009                                | 2008   | 2007   | 2006   | 2005   |
| Working capital   | \$ 27,702                           | 18,688 | 14,952 | 8,236  | 3,321  |
| Total assets  | 59,452                              | 48,723 | 45,553 | 39,037 | 44,000 |
| Short-term debt and capital lease obligations                           | 623                                 | 1,419  | 1,419  | 1,767  | 9,716  |
| Long-term debt and capital lease obligations, excluding current portion | 7,502                               | 4,852  | 6,271  | 6,921  | 7,650  |
| Total liabilities   | 20,446                              | 16,832 | 20,726 | 19,796 | 28,605 |
| Stockholders' equity  | 39,005                              | 31,890 | 24,827 | 19,241 | 15,395 |

(1) See Note 21 to the consolidated financial statements for segment information.

(2) Amount includes restructuring charges of \$1.3 million.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**



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This report contains certain statements that are forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995 and releases issued by the Securities and Exchange Commission. The words believe, expect, anticipate, intend, plan, estimate, and other expressions, which are predictions of or indicate future events and trends and that do not relate to historical matters, identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results, performance, or achievements of the Company to differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements.

Examples of these risks, uncertainties, and other factors include, without limitation, the following: (i) economic conditions that affect sales of the products of the Company's customers; (ii) actions by the Company's competitors and the ability of the Company to respond to such actions; (iii) the ability of the Company to obtain new customers; and (iv) the ability of the Company to execute and



integrate favorable acquisitions. In addition to the foregoing, the Company's actual future results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth elsewhere in this report and changes in general economic conditions, interest rates and the assumptions used in making such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

## **Results of Operations**



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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:

|   | 2009   | 2008   | 2007   |
|---|--------|--------|--------|
| Net sales   | 100.0% | 100.0% | 100.0% |
| Cost of sales                                     | 73.1%  | 74.0%  | 75.6%  |
| Gross profit                                      | 26.9%  | 26.0%  | 24.4%  |
| Selling, general, and administrative expenses     | 18.7%  | 17.1%  | 16.7%  |
| Restructuring charge                              | 0.0%   | 1.2%   | 0.0%   |
| Operating income                                  | 8.2%   | 7.7%   | 7.7%   |
| Total other expenses (income), net                | -0.7%  | 0.3%   | 0.5%   |
| Income before taxes                               | 8.9%   | 7.4%   | 7.2%   |
| Income tax expense                                | 2.9%   | 2.8%   | 2.8%   |
| Net income attributable to UFP Technologies, Inc. | 6.0%   | 4.6%   | 4.4%   |

### Overview



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UFP Technologies is an innovative designer and custom converter of foams, plastics, and fiber products. The Company serves a myriad of markets, but specifically targets opportunities in the automotive, computers and electronics, medical, aerospace and defense, industrial, and consumer markets.

On March 9, 2009, the Company acquired selected assets of the Hillsdale, Michigan, operations of Foamade Industries, Inc. ( Foamade ), a business specializing in the fabrication of technical urethane foams for a myriad of industries. The Company transitioned the acquired assets to its Grand Rapids, Michigan, plant.

On July 7, 2009, the Company acquired substantially all of the assets of E.N. Murray Co. ( ENM ), a Denver, Colorado-based foam fabricator. ENM specialized in the fabrication of technical urethane foams, primarily for the medical industry. This acquisition brings to the Company further access and expertise in fabricating technical urethane foams and a seasoned management team.

On August 24, 2009, the Company acquired selected assets of Advanced Materials, Inc. ( AMI ), a wholly-owned subsidiary of Advanced Materials Group, Inc. Located in Rancho Dominguez, California, AMI specialized in the fabrication of technical urethane foams, primarily for the medical industry.

On October 29, 2009, the Company's largest customer, Recticel Interiors North America, filed for bankruptcy protection pursuant to Chapter 11 of the bankruptcy code. Sales to Recticel for the fiscal

years ended December 31, 2009, 2008, and 2007 were \$8.0 million, \$13.8 million, and \$16.5 million, respectively. On October 29, 2009, the Company was owed \$897,445 from Recticel, all of which was within contractual payment terms. The Company had not recorded a specific reserve against this receivable in its December 31, 2009, financial statements, as on December 31, 2009, the Company believed that full collection was probable. The entire \$897,445 was paid on March 8, 2010. The Company also expects that the bankruptcy filing will have no impact on future orders from Recticel, and that program volumes will fluctuate based upon consumer demand for the program vehicles.

The Company experienced significantly lower sales in the first half of fiscal 2009, largely due to the weak economy and materially reduced demand for cars in North America. However, sales improved in the third and fourth quarters as many of the Company's customers increased forecasts (both business segments). Although sales for the fiscal year were down, the Company reported record earnings largely due to gains recorded from acquisitions, and the impact on gross margins and selling, general, and administrative expenses of cost-control efforts.

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

### **2009 Compared to 2008**

Net sales decreased 9.8% to \$99.2 million in the year ended December 31, 2009, from \$110.0 million in the same period of 2008. Without sales from its newly acquired Foamade, E.N. Murray Co., and AMI operations (all within the Component Products segment), sales would have declined 19.5% for the year ended December 31, 2009. Sales in the Component Products segment (including those from the newly acquired operations) increased slightly to \$61.0 million in 2009, from \$60.8 million in 2008. Without sales from the newly acquired operations, Component Product sales would have declined 17.3% to \$50.4 million for the year ended December 31, 2009. This decrease in sales is primarily due to a decrease in sales to the automotive industry of approximately \$9.6 million. Sales in the Packaging segment decreased 22.2% to \$38.2 million for the year ended December 31, 2009, from \$49.2 million in the same period of 2008. The decrease in sales is largely due to a decrease in sales of \$3.9 million to a key electronics customer and overall reduced demand for packaging because of the impact of the poor economy on demand for our customers' products, partially offset by an increase in demand for environmentally friendly molded fiber packaging of approximately \$700,000.

Gross profit as a percentage of sales (Gross Margin) increased to 26.9% in 2009 from 26.0% in 2008. The improvement in gross margin is primarily attributable to Companywide manufacturing efficiency and cost-cutting initiatives, as well as a favorable shift in product mix (lower auto sales); material cost as a percentage of sales is down 1.2%, partially offset by higher overhead as a percentage of sales due to the fixed-cost components of overhead measured against lower sales.

Selling, General, and Administrative Expenses (SG&A) decreased 1.5% to \$18.5 million for the year ended December 31, 2009, from \$18.8 million in 2008. As a percentage of sales, SG&A was 18.7% and 17.1% in the years ended December 31, 2009, and 2008, respectively. The decline in SG&A for the year ended December 31, 2009, is primarily due to reduced administrative variable compensation of approximately \$900,000 (both business segments) and reduced SG&A associated with the consolidation of the Company's two Michigan facilities of approximately \$550,000 (Component Products segment), partially offset by SG&A associated with newly acquired companies of approximately \$1.3 million (Component Products segment). The increase in SG&A as

a percentage of sales is primarily a result of the fixed-cost components of SG&A being measured against lower sales.

The Company recorded a restructuring charge of approximately \$1.3 million during the year ended December 31, 2008, associated with the consolidation of its Macomb Township, Michigan, automotive operations into its newly acquired plant in Grand Rapids, Michigan. The \$1.3 million charge was for the costs associated with vacating the Macomb Township premises, severance, relocation, and stay-bonuses for its employees, equipment moving and hook-up costs, and training and other start-up costs. As of December 31, 2008, the move was completed and all significant costs had been incurred. The Company believes that cost savings exceeded \$1.4 million as a result of the consolidation for the fiscal year ended December 31, 2009.

The Company recorded acquisition-related gains of approximately \$840,000 for the year ended December 31, 2009. The acquisitions of Foamade, ENM, and AMI all resulted in bargain purchase gains as the consideration paid was less than the fair market value of the net assets acquired. The Company believes the net assets were acquired at a bargain purchase due to the overall weak economy.

Interest expense decreased to approximately \$233,000 for the year ended December 31, 2009, from \$334,000 in 2008. The decrease in interest expense is primarily attributable to lower average interest rates.

The Company recorded income tax expense as a percentage of pre-tax income of 32.0% and 36.9% for the years ended December 31, 2009, and 2008, respectively. The primary reason for the decrease in income tax expense as a percentage of pre-tax income is due to the non-taxable gains recorded on the acquisitions of Foamade, ENM, and AMI. 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 will be realized, and has not recorded a tax valuation allowance at December 31, 2009. The Company will continue to assess the realizability of deferred tax assets created by recording tax benefits on operating losses 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 carryforward period are reduced.

## **2008 Compared to 2007**

Net sales increased 17.6% to \$110.0 million in the year ended December 31, 2008, from \$93.6 million in the same period of 2007. Without its newly acquired plant in Grand Rapids, Michigan (Component Products segment), sales increased 4% for the year ended December 31, 2008. Sales in the Component Products segment increased 13.1% to \$60.8 million for the year ended December 31, 2008, from \$53.8 million in the same period of 2007. The increase is primarily due to sales of \$12.7 million from the newly acquired plant in Grand Rapids, partially offset by a decrease in sales to the automotive industry of approximately \$5.9 million. The Company believes that sales to the automotive industry will continue to weaken in 2009. Sales in the Engineered Packaging segment increased 23.5% to \$49.2 million for the year ended December 31, 2008, from \$39.8 million in the same period of 2007. The increase in sales is largely due to an increase in sales of \$3.9 million to a key electronics customer, as well as increased demand for environmentally friendly molded fiber packaging.

Gross profit as a percentage of sales ( Gross Margin ) increased to 26.0% in 2008 from 24.4% in 2007. The improvement in gross margin is primarily attributable to Company-wide continued strategic pricing and manufacturing efficiency initiatives (material and labor as a percentage of sales are down 1.2% and 0.8%, respectively) partially offset by lower gross margins in the Company's automotive plants (Component Products segment).

Selling, General, and Administrative Expenses ( SG&A ) increased 20.9% to \$18.8 million for the year ended December 31, 2008, from \$15.6 million in 2007. As a percentage of sales, SG&A was 17.1% and 16.7% in the years ended December 31, 2008, and 2007, respectively. The increase in SG&A spending is primarily attributable to increased SG&A from the newly acquired plant in Grand Rapids of approximately \$2.2 million (Component Products segment) as well as increased equity-based compensation of approximately \$600,000 (Component Products and Packaging segments).

The Company recorded a restructuring charge of approximately \$1.3 million during the year ended December 31, 2008, associated with the consolidation of its Macomb Township, Michigan, automotive operations into its newly acquired plant in Grand Rapids, Michigan. The \$1.3 million charge is for the costs associated with vacating the Macomb Township premises, severance, relocation, and stay-bonuses for its employees, equipment moving and hook-up costs, and training and other start-up costs. As of December 31, 2008, the move was completed and all significant costs had been incurred.

Interest expense decreased to approximately \$334,000 for the year ended December 31, 2008, from \$479,000 in 2007. The decrease in interest expense is primarily attributable to lower average borrowings.

The Company recorded income tax expense as a percentage of pre-tax income of 36.9% and 38.3% for the years ended December 31, 2008, and 2007, respectively. 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 will be realized, and has not recorded a tax valuation allowance at December 31, 2008. The Company will continue to assess the realizability of deferred tax assets created by recording tax benefits on operating losses 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 carryforward period are reduced.

## **Liquidity and Capital Resources**





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

As of December 31, 2009, and 2008, working capital was approximately \$27,702,000 and \$18,688,000, respectively. The increase in working capital is primarily attributable to an increase in cash of approximately \$8.3 million due to cash generated from operations and an increase in accounts receivable of approximately \$1.5 million due mostly to strong December 2009 sales partially offset by an increase in accounts payable of approximately \$970,000 due to the timing of year-end cash disbursements. Cash provided from operations was approximately \$10.7 million and \$6.7 million in 2009 and 2008, respectively. The primary reason for the increase in cash generated from operations in 2009 is an increase in profits of approximately \$821,000, a decrease in inventory, net of amounts acquired in business combinations, of approximately \$1.9 million during the fiscal

year ended December 31, 2009, compared to an increase in inventory of approximately \$435,000 during fiscal 2008 (due to inventory management efforts), an increase in accounts payable, net of amounts acquired in business combinations, of approximately \$393,000 for the year ended December 31, 2009, compared to a decrease in accounts payable of approximately \$2.8 million for the year ended December 31, 2008 (difference in the timing of check runs at the end of the respective years), partially offset by an increase in accounts receivable, net of accounts receivable acquired in business combinations, of approximately \$342,000 for the year ended December 31, 2009, compared to a decrease in accounts receivable of approximately \$777,000 for the year ended December 31, 2008 (due mostly to strong December 2009 sales). Net cash used in investing activities in 2009 was approximately \$4.3 million and was used primarily for the acquisitions of the selected assets of Foamade Industries, Inc, E.N. Murray Co., and Advanced Materials Group of approximately \$2.4 million (net of cash acquired) and the acquisition of new manufacturing equipment of approximately \$1.9 million.

On January 29, 2009, the Company amended and extended its credit facility with Bank of America, NA. The facility is comprised of: (i) a revolving credit facility of \$17 million; (ii) a term loan of \$2.1 million with a seven-year straight-line amortization; (iii) a term loan of \$1.8 million with a 20-year straight-line amortization; and (iv) a term loan of \$4.0 million with a 20-year straight-line amortization. Extensions of credit under the revolving credit facility are based in part upon accounts receivable and inventory levels. Therefore, the entire \$17 million may not be available to the Company. As of December 31, 2009, the Company had availability of approximately \$14.4 million based upon collateral levels in place as of that date. 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. The loans are collateralized by a first priority lien on all of the Company's assets, including its real estate located in Georgetown, Massachusetts, and in Grand Rapids, Michigan. Under the credit facility, the Company is subject to a minimum fixed-charge coverage financial covenant. The Company's \$17 million revolving credit facility matures November 30, 2013; the term loans are all due on January 29, 2016. At December 31, 2009, the interest rate on these facilities was 1.26%.

UDT has a mortgage note collateralized by the Florida facility, dated May 22, 2007. The note had an original principal balance of \$786,000 and calls for 180 monthly payments of \$7,147. The interest rate is fixed at approximately 7.2%.

#### **Commitments, Contractual Obligations, and Off-Balance Sheet Arrangements**



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The following table summarizes the Company's contractual obligations at December 31, 2009:

| Payments due in:    | Operating Leases | Grand Rapids Mortgage | Equipment Loans | Term Loans   | Massachusetts Mortgage | UDT Mortgage | Debt Interest | Supplemental Retirement | Total         |
|---------------------|------------------|-----------------------|-----------------|--------------|------------------------|--------------|---------------|-------------------------|---------------|
| 2010                | \$ 1,803,371     | \$ 200,000            | \$ 5,755        | \$ 288,360   | \$ 92,300              | \$ 36,592    | \$ 217,456    | \$ 96,250               | \$ 2,740,084  |
| 2011                | 1,338,139        | 200,000               | 35,095          | 288,360      | 92,300                 | 39,120       | 209,361       | 75,000                  | \$ 2,277,375  |
| 2012                | 1,180,901        | 200,000               |                 | 288,360      | 92,300                 | 42,025       | 192,197       | 75,000                  | \$ 2,070,783  |
| 2013                | 779,534          | 200,000               |                 | 288,360      | 92,300                 | 45,147       | 174,265       | 75,000                  | \$ 1,654,606  |
| 2014 and thereafter | 588,853          | 3,033,332             |                 | 624,784      | 1,399,883              | 540,457      | 624,918       | 170,833                 | \$ 6,983,060  |
|                     | \$ 5,690,798     | \$ 3,833,332          | \$ 40,850       | \$ 1,778,224 | \$ 1,769,083           | \$ 703,341   | \$ 1,418,197  | \$ 492,083              | \$ 15,725,908 |

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, 2009, it cannot guarantee that its operations will generate cash in future periods.

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

The Company had no off-balance sheet arrangements in 2009.

**Critical Accounting Policies**



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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 that are believed to be reasonable under the circumstances, including current and anticipated worldwide economic conditions, both in general and specifically in relation to the packaging industry, 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 Form 10-K. 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 judgments. 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.

### Intangible Assets

Intangible assets include patents and other intangible assets. Intangible assets with an indefinite life are not amortized. Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from eight to 14 years. Indefinite-lived intangible assets are 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. Intangible



assets with a definite life are tested for impairment whenever events or circumstances indicate that their value may be reduced.

#### Goodwill

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. The Company's reporting units include its Component Products segment, Packaging segment (excluding its Molded Fiber operation), and its Molded Fiber operation. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company completed its annual goodwill impairment test as of December 31, 2009. Fair values of the reporting units were determined using a combination of several valuation methodologies, including income and market approaches, which include the use of Level 1 and Level 3 inputs (see Note 19 to the Consolidated Financial Statements). The fair values of reporting units that have goodwill balances were estimated to be more than 100% greater than their respective carrying values and, therefore, it was determined that no goodwill was impaired.

#### Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. These allowances for doubtful accounts are determined by reviewing specific accounts that the Company has deemed are at risk of being uncollectible and other credit risks associated with groups of customers. If the financial condition of the Company's customers were to deteriorate or economic conditions were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required with a resulting charge to results of operations.

#### Inventories

The Company provides reserves for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. The Company fully reserves for inventories deemed obsolete. The Company performs periodic reviews of all inventory items to identify excess inventories on hand by comparing on-hand balances to anticipated usage using recent historical activity, as well as anticipated or forecasted demand, based upon sales and marketing inputs through its planning systems. If estimates of demand diminish or actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required with a resulting charge to operations.

#### Deferred Income Taxes

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 net



deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**



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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, 2009, 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. The Company has four debt instruments where interest is based upon either the Prime rate or LIBOR and, therefore, future operations could be affected by interest rate changes; however, the Company believes that the market risk of the debt is minimal.

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



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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(T). CONTROLS AND PROCEDURES**



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(a) 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)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

(b) 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). Management conducted an assessment of the Company's internal control over financial reporting as of December 31, 2009, based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on the assessment, management concluded that, as of December 31, 2009, the Company's internal control over financial reporting is effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was

not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) 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**





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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**



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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**



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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**



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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 ACCOUNTANT FEES AND SERVICES**



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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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(a) (3) Exhibits

| <b>Number</b> |  | <b>Reference</b>  |
|---------------|--|-------------------|
| 2.01          | Agreement and Plan of Reorganization among the Company, Moulded Fibre Technology, Inc. and UFP Acquisition, Inc.   | A-2.01**          |
| 2.02          | Agreement of Merger between Moulded Fibre Technology, Inc. and UFP Acquisition, Inc.   | B-2.02**          |
| 2.03          | Merger Agreement relating to the reincorporation of the Company in Delaware.   | A-2.02**          |
| 2.04          | Asset Purchase Agreement relating to the purchase of Foam Cutting Engineers, Inc.  | C-2**             |
| 2.05          | Asset Purchase Agreement relating to the purchase of the assets of Pacific Foam Technologies, Inc.   | D-2.05**          |
| 2.06          | Stock Purchase Agreement dated January 14, 2000, relating to the acquisition of the stock of Simco Industries, Inc.  | E-2.01**          |
| 3.01          | Certificate of Incorporation of the Company, as amended.   | F-3.01** G-3.01** |
| 3.02          | Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock, as filed with the Secretary of State of the State of Delaware on March 20, 2009. | II-3.02**         |

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|       |  |              |
|-------|--|--------------|
| 3.03  | Amended and Restated Bylaws of the Company.  | II-3.03**    |
| 4.01  | Specimen Certificate for shares of the Company s Common Stock.   | A-4.01 **    |
| 4.02  | Description of Capital Stock (contained in the Certificate of Incorporation of the Company, filed as Exhibit 3.01).  | F-3.01**     |
| 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. | II-4.03**    |
| 10.01 | Agreement between the Company and William H. Shaw.   | A-10.08*, ** |
| 10.02 | Agreement and Severance Agreement between the Company and Richard L. Bailly.   | A-10.09*, ** |
| 10.03 | Employee Stock Purchase Plan.  | A-10.18**    |
| 10.04 | 1993 Combined Stock Option Plan, as amended.   | I-10.19*, ** |
| 10.05 | 1993 Non-employee Director Stock Option Plan.  | J-4.5**      |
| 10.06 | Facility Lease between the Company and Raritan Associates.   | A-10.22**    |
| 10.07 | Facility Lease between the Company and Dana Evans d/b/a Evans Enterprises.   | A-10.27**    |
| 10.08 | Form of Indemnification Agreement for directors and officers of the Company.   | A-10.30**    |
| 10.09 | Facility Lease between the Company and Clinton Area Development Corporation.   | K-10.37**    |
| 10.10 | Employment Agreement with R. Jeffrey Bailly dated April 4, 1995.   | L-10.37*, ** |
| 10.11 | Amended 1998 Employee Stock Purchase Plan.   | M**          |
| 10.12 | Facility Lease between the Company and Quadrate Development, LLC   | N-10.43**    |
| 10.13 | Amended 1998 Director Stock Option Incentive Plan, as amended  | M, DD*, **   |
| 10.14 | Amended Facility Lease between the Company and United Development Company Limited.   | O-10.27**    |
| 10.15 | Amended Facility Lease between the Company and United Development Company Limited.   | O-10.28**    |
| 10.16 | Amended Facility Lease between the Company and Ward Hill Realty Associates, LLC, successors in interest to Evans Enterprises of South Beach  | P-10.30**    |
| 10.17 | Credit and Security Agreement between the Company and Fleet Capital Corporation  | Q-10.31**    |
| 10.18 | Facility Lease between Simco Automotive Trim, Inc. and Insite Atlanta, LLC   | R-10.31**    |
| 10.19 | Amended Credit and Security Agreement between the Company and Fleet Capital Corporation.   | S-10.33**    |



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|       |  |                 |
|-------|--|-----------------|
| 10.20 | Facility lease between the Company and Clinton Base Company LLC  | G-10.34**       |
| 10.21 | Second Amendment to the Credit Agreement between the Company and Fleet Capital Corporation   | T-10.35**       |
| 10.22 | Third Amendment to the Credit and Security Agreement between the Company and Bank of America   | U-10.37**       |
| 10.23 | 1998 Employee Stock Purchase Plan as amended   | V-10.38**       |
| 10.24 | Form of Stock Unit Award Agreement   | W-10.40*,**     |
| 10.25 | Executive Non-qualified Excess Plan  | X-10.41*,**     |
| 10.26 | UFP Technologies, Inc. 2003 Incentive Plan, as amended   | Y-10.26, EE*,** |
| 10.27 | Promissory note of United Development Company Limited in favor of Bank of America, N.A. dated May 22, 2007   | Y-10.27         |
| 10.28 | Employment Agreement with R. Jeffrey Bailly dated October 8, 2007  | Z-10.28*,**     |
| 10.29 | Agreement and Plan of Merger dated as of January 14, 2008, among UFP Technologies, Inc., S&L Acquisition Corp., and Stephenson & Lawyer, Inc.                  | AA-10.29**      |
| 10.30 | Form of 2008 Stock Unit Award Agreement  | CC-10.30*,**    |
| 10.42 | Amended facility lease between the Company and Rothbart Realty Co.   | CC-10.42**      |
| 10.43 | Amended facility lease between the Company and Rothbart Realty Co.   | CC-10.43**      |
| 10.44 | Amended facility lease between the Company and Quadrate Development, LLC   | CC-10.44**      |
| 10.45 | Amended facility lease between the Company and Kessler Industries, Inc.  | CC-10.45**      |
| 10.46 | Amended facility lease between the Company and Raritan Johnson Associates, LLC   | CC-10.46**      |
| 10.47 | Amended facility lease between the Company and Ward Hill Realty Associates, LLC  | CC-10.47**      |
| 10.48 | Form of Stock Unit Award Agreement by and between UFP Technologies, Inc. and R. Jeffrey Bailly.  | FF-10.48*,**    |
| 10.49 | Third Amendment to Iowa facility lease, signed as of August 20, 2008, between Moulded Fibre Technology, Inc.(Tenant) and Clinton Base Company, LLC (Landlord). | GG-10.49**      |
| 10.50 | Form of 2009 Stock Unit Award Agreement.   | HH-10.50*,**    |
| 10.51 | Amended and restated Credit and Security Agreement between the Company and Bank of America, N.A, dated January 27, 2009.                                       | JJ-10.51**      |
| 10.52 | 2009 Non-Employee Director Stock Incentive Plan  | KK-10.52*,**    |
| 10.53 | Lease agreement dated July 29, 2009, between ProLogis and UFP Technologies, Inc.   | LL-10.53**      |
| 10.54 | Form of 2010 Stock Unit Award Agreement  | Filed herewith  |

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|       |  |                |
|-------|--|----------------|
| 14.00 | Code of Ethics   | BB**           |
| 21.01 | Subsidiaries of the Company.   | Filed herewith |
| 23.01 | Consent of CCR LLP   | Filed herewith |
| 31.01 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  | Filed herewith |
| 31.02 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  | Filed herewith |
| 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. | Filed herewith |

A. Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-70912). The number set forth herein is the number of the Exhibit in said Registration Statement.

B. Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1993. The number set forth herein is the number of the Exhibit in said Annual Report.

C. Incorporated by reference to the Company's report on 8-K dated February 3, 1997. The number set forth herein is the number of the Exhibit in said report.

D. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998. The number set forth herein is the number of the Exhibit in said Annual Report.

E. Incorporated by reference to the Company's Report on Form 8-K dated January 31, 2000. The number set forth herein is the number of the Exhibit in said Report.

F. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 1996. The number set forth herein is the number of the Exhibit in said Quarterly Report.

G. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2004. The number set forth herein is the number of the exhibit in said Quarterly Report.

H. Incorporated by reference to the Company's report on Form 8-K dated January 13, 1999. The number set forth herein is the number of the Exhibit in said Report.

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I. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 1998. The number set forth herein is the number of the Exhibit in said Quarterly Report.

J. Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-76440). The number set forth herein is the number of the Exhibit in said Registration Statement.

K. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995. The number set forth herein is the number of the Exhibit in said Annual Report.

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- L. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 1995. The number set forth herein is the number of the Exhibit in said Quarterly Report.
- M. Incorporated by reference to the Company's Proxy Statement relating to the Company's Annual Meeting of Stockholders on June 5, 2002.
- N. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. The number set forth herein is the number of the Exhibit in said Annual Report.
- O. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. The number set forth herein is the number of the Exhibit in said Annual Report.
- P. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2002. The number set forth herein is the number of the Exhibit in said Quarterly Report.
- Q. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. The number set forth is the number of the exhibit in said Annual Report.
- R. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2003. The number set forth herein is the number of the Exhibit in said Annual Report.
- S. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003. The number set forth is the number of the exhibit in said Annual Report.
- T. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2004. The number set forth herein is the number of the exhibit in said Quarterly Report.
- U. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The number set forth herein is the number of the exhibit in said annual report.
- V. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2006. The number set forth herein is the number of the exhibit in said quarterly report.

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W. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2006. The number set forth herein is the number of the exhibit in said quarterly report.

X. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2006. The number set forth herein is the number of the exhibit in said Quarterly Report.

Y. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2007. The number set forth herein is the number of the exhibit in said Quarterly Report.

Z. Incorporated by reference to the Company's Current Report on Form 8-K filed October 12, 2007. The number set forth herein is the number of the Exhibit in said Report.

AA. Incorporated by reference to the Company's Current Report on Form 8-K filed January 18, 2008. The number set forth herein is the number of the Exhibit in said Report.

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- BB. Incorporated by reference to Appendix C to the Company's Proxy Statement relating to the Company's Annual Meeting of Stockholders on June 6, 2007.
- CC. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. The number set forth herein is the number of the exhibit in said Annual Report.
- DD. Incorporated by reference to Appendix A to the Company's Proxy Statement relating to the Company's Annual Meeting of Stockholders on June 4, 2008.
- EE. Incorporated by reference to Appendix B to the Company's Proxy Statement relating to the Company's Annual Meeting of Stockholders on June 4, 2008.
- FF. Incorporated by reference to the Company's Current Report on Form 8-K filed June 10, 2008. The number set forth herein is the number of the exhibit in said Report.
- GG. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2008. The number set forth herein is the number of the exhibit in said Quarterly Report.
- HH. Incorporated by reference to the Company's Current Report on Form 8-K filed March 2, 2009. The number set forth herein is the number of the Exhibit in said Report.
- II. Incorporated by reference to the Company's Current Report on Form 8-K filed March 24, 2009. The number set forth herein is the number of the Exhibit in said Report.
- JJ. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The number set forth herein is the number of the exhibit in said Annual Report.
- KK. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2009. The number set forth herein is the number of the exhibit in said Quarterly Report.
- LL. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2009. The number set forth herein is the number of the exhibit in said Quarterly Report.

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\* Management contract or compensatory plan or arrangement.

\*\* In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

The SEC allows the Company to incorporate by reference certain information into this annual report on Form 10-K. This means that the Company can disclose important information by reference to other documents the Company has filed separately with the SEC. These documents contain important information about the Company and its financial condition. The Company has incorporated by reference into this annual report the information indicated above. This information is considered to be a part of this annual report, except for any information that is superseded by information that is filed at a later date.

You may read and copy any of the documents incorporated by reference in this annual report at the following locations of the SEC by using the Company's file number, 001-12648:

Public Reference Room  
450 Fifth Street, NW  
Room 1024  
Washington, DC 20549

Midwest Regional Office  
Citicorp Center  
500 West Madison Street, # 1400  
Chicago, IL 60661

Northeast Regional Office  
233 Broadway  
New York, NY 10279

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You may also obtain copies of this information by mail from the Public Reference Room of the SEC, 450 Fifth Street, NW, Room 1024, Washington, DC 20549, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a World Wide Web site that contains reports, proxy statements and other information about issuers, including the Company, that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

Documents incorporated by reference are also available from the Company without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference in this annual report. You can obtain these documents by requesting them by telephone or in writing from the Company at 172 East Main Street, Georgetown, MA 01833, (978) 352-2200.



**SIGNATURES**



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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 30, 2010

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.

| <b>SIGNATURE</b>                                   | <b>TITLE</b>   | <b>DATE</b>    |
|--|--|----------------|
| /s/ R. Jeffrey Bailly<br>R. Jeffrey Bailly         | Chairman, Chief Executive Officer,<br>President, and Director                          | March 30, 2010 |
| /s/ Ronald J. Lataille<br>Ronald J. Lataille       | Chief Financial Officer, Vice President,<br>Principal Financial and Accounting Officer | March 30, 2010 |
| /s/ Richard L. Bailly<br>Richard L. Bailly         | Director   | March 30, 2010 |
| /s/ Kenneth L. Gestal<br>Kenneth L. Gestal         | Director   | March 30, 2010 |
| /s/ David B. Gould<br>David B. Gould               | Director   | March 30, 2010 |
| /s/ Thomas Oberdorf<br>Thomas Oberdorf             | Director   | March 30, 2010 |
| /s/ Marc Kozin<br>Marc Kozin                       | Director   | March 30, 2010 |
| /s/ David K. Stevenson<br>David K. Stevenson       | Director   | March 30, 2010 |
| /s/ Robert W. Pierce, Jr.<br>Robert W. Pierce, Jr. | Director   | March 30, 2010 |

**UFP TECHNOLOGIES, INC.**

Consolidated Financial Statements  
and Financial Statement Schedule

As of December 31, 2009 and 2008

And for the Years Ended December 31, 2009, 2008, and 2007

With Report of Independent Registered Public Accounting Firm

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UFP TECHNOLOGIES, INC.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

**UFP Technologies, Inc.**

Georgetown, MA

We have audited the accompanying consolidated balance sheets of **UFP Technologies, Inc.** and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2009. Our audits also included the financial statement schedule for each of the years in the three year period ended December 31, 2009 as listed in the index at Item 15(a)(2). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 consolidated financial position of **UFP Technologies, Inc.** and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2009 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.

/s/ CCR LLP

Westborough, Massachusetts

March 30, 2010



UFP TECHNOLOGIES, INC.

**CONSOLIDATED BALANCE SHEETS**

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|   | December 31   |               |
|---|---------------|---------------|
|   | 2009          | 2008          |
| <b>Assets</b>   |               |               |
| Current assets:   |               |               |
| Cash and cash equivalents   | \$ 14,998,514 | \$ 6,729,370  |
| Receivables, net  | 14,218,005    | 12,754,875    |
| Inventories, net  | 7,647,517     | 8,152,746     |
| Prepaid expenses  | 476,381       | 516,388       |
| Deferred income taxes   | 1,410,780     | 1,488,575     |
| Total current assets  | 38,751,197    | 29,641,954    |
| Property, plant, and equipment  | 43,582,578    | 40,666,779    |
| Less accumulated depreciation and amortization  | (31,364,683)  | (28,912,455)  |
| Net property, plant and equipment   | 12,217,895    | 11,754,324    |
| Goodwill  | 6,481,037     | 6,481,037     |
| Intangible assets   | 817,737       | 175,841       |
| Other assets  | 1,183,930     | 669,505       |
| Total assets  | \$ 59,451,796 | \$ 48,722,661 |
| <b>Liabilities and Stockholders Equity</b>  |               |               |
| Current liabilities:  |               |               |
| Accounts payable  | \$ 4,273,625  | \$ 3,304,194  |
| Accrued taxes and other expenses  | 6,152,826     | 6,230,001     |
| Current installments of long-term debt  | 623,007       | 716,697       |
| Current installments of capital lease obligations   |               | 702,765       |
| Total current liabilities   | 11,049,458    | 10,953,657    |
| Long-term debt, excluding current installments  | 7,501,823     | 3,941,996     |
| Capital lease obligations, excluding current installments   |               | 909,900       |
| Deferred income taxes   | 776,877       | 113,073       |
| Retirement and other liabilities  | 1,118,197     | 913,644       |
| Total liabilities   | 20,446,355    | 16,832,270    |
| Commitments and contingencies (Note 16)   |               |               |
| Stockholders equity:  |               |               |
| Preferred stock, \$.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding  |               |               |
| Common stock, \$.01 par value. Authorized 20,000,000 shares; issued and outstanding 5,945,357 shares in 2009 and 5,666,703 shares in 2008 | 59,454        | 56,667        |
| Additional paid-in capital  | 15,009,613    | 13,774,334    |
| Retained earnings   | 23,465,812    | 17,536,387    |
| Total UFP Technologies, Inc. stockholders equity  | 38,534,879    | 31,367,388    |
| Non-controlling interests   | 470,562       | 523,003       |
| Total stockholders equity   | 39,005,441    | 31,890,391    |
| Total liabilities and stockholders equity   | \$ 59,451,796 | \$ 48,722,661 |

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

UFP TECHNOLOGIES, INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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|  | Years Ended December 31 |                |               |
|--|-------------------------|----------------|---------------|
|  | 2009                    | 2008           | 2007          |
| Net sales  | \$ 99,231,334           | \$ 110,031,601 | \$ 93,595,140 |
| Cost of sales  | 72,511,919              | 81,468,539     | 70,784,986    |
| Gross profit   | 26,719,415              | 28,563,062     | 22,810,154    |
| Selling, general, and administrative expenses        | 18,539,005              | 18,822,965     | 15,562,800    |
| Restructuring charge                                 |                         | 1,315,366      |               |
| Operating income                                     | 8,180,410               | 8,424,731      | 7,247,354     |
| Other income (expense):                              |                         |                |               |
| Interest expense, net                                | (232,747)               | (334,293)      | (479,171)     |
| Equity in net income of unconsolidated partnership   |                         | 7,218          | 15,038        |
| Other, net   | 11,206                  | 57,457         | 32,500        |
| Gains on acquisitions                                | 839,690                 |                |               |
| Total other (expense) income                         | 618,149                 | (269,618)      | (431,633)     |
| Income before income tax provision                   | 8,798,559               | 8,155,113      | 6,815,721     |
| Income tax expense                                   | 2,816,575               | 2,994,648      | 2,584,250     |
| Net income from consolidated operations              | \$ 5,981,984            | \$ 5,160,465   | \$ 4,231,471  |
| Net income attributable to non-controlling interests | (52,559)                | (44,465)       | (72,370)      |
| Net income attributable to UFP Technologies, Inc.    | \$ 5,929,425            | \$ 5,116,000   | \$ 4,159,101  |
| Net income per share:                                |                         |                |               |
| Basic  | \$ 1.02                 | \$ 0.92        | \$ 0.78       |
| Diluted  | \$ 0.94                 | \$ 0.82        | \$ 0.71       |
| Weighted average common shares:                      |                         |                |               |
| Basic  | 5,829,580               | 5,549,830      | 5,306,948     |
| Diluted  | 6,293,964               | 6,262,666      | 5,861,420     |

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

UFP TECHNOLOGIES, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**



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Years Ended December 31, 2009, 2008, and 2007

|   | Common Stock |           | Additional    | Retained      | Non-Controlling | Total         |
|---|--------------|-----------|---------------|---------------|-----------------|---------------|
|   | Shares       | Amount    | Paid-in       | Earnings      | Interests       | Stockholders  |
|   |              |           | Capital       |               |                 | Equity        |
| Balance at December 31, 2006                                    | 5,156,764    | \$ 51,568 | \$ 10,311,682 | \$ 8,261,286  | \$ 616,157      | \$ 19,240,693 |
| Stock issued under Employee Stock Purchase Plan                 | 4,721        | 47        | 23,848        |               |                 | 23,895        |
| Stock issued in lieu of compensation                            | 55,189       | 552       | 255,524       |               |                 | 256,076       |
| Share-based compensation  | 41,000       | 410       | 691,614       |               |                 | 692,024       |
| Exercise of stock options, net of shares presented for exercise | 117,707      | 1,177     | 271,037       |               |                 | 272,214       |
| Excess tax benefits on share-based compensation                 |              |           | 215,094       |               |                 | 215,094       |
| Net income  |              |           |               | 4,159,101     | 72,370          | 4,231,471     |
| Distribution to non-controlling interests                       |              |           |               |               | (104,994)       | (104,994)     |
| Balance at December 31, 2007                                    | 5,375,381    | \$ 53,754 | \$ 11,768,799 | \$ 12,420,387 | \$ 583,533      | \$ 24,826,473 |
| Stock issued under Employee Stock Purchase Plan                 | 2,817        | 28        | 20,535        |               |                 | 20,563        |
| Stock issued in lieu of compensation                            | 55,644       | 556       | 343,324       |               |                 | 343,880       |
| Share-based compensation  | 93,680       | 937       | 1,304,852     |               |                 | 1,305,789     |
| Exercise of stock options                                       | 139,181      | 1,392     | 331,634       |               |                 | 333,026       |
| Net share settlement of restricted stock units                  |              |           | (206,044)     |               |                 | (206,044)     |
| Excess tax benefits on share-based compensation                 |              |           | 211,234       |               |                 | 211,234       |
| Net income  |              |           |               | 5,116,000     | 44,465          | 5,160,465     |
| Distribution to non-controlling interests                       |              |           |               |               | (104,995)       | (104,995)     |
| Balance at December 31, 2008                                    | 5,666,703    | \$ 56,667 | \$ 13,774,334 | \$ 17,536,387 | \$ 523,003      | \$ 31,890,391 |
| Stock issued in lieu of compensation                            | 43,279       | 433       | 183,067       |               |                 | 183,500       |
| Share-based compensation  | 196,000      | 1,960     | 898,853       |               |                 | 900,813       |
| Exercise of stock options                                       | 39,375       | 394       | 129,938       |               |                 | 130,332       |
| Excess tax benefits on share-based compensation                 |              |           | 23,421        |               |                 | 23,421        |
| Net income  |              |           |               | 5,929,425     | 52,559          | 5,981,984     |
| Distribution to non-controlling interests                       |              |           |               |               | (105,000)       | (105,000)     |
| Balance at December 31, 2009                                    | 5,945,357    | \$ 59,454 | \$ 15,009,613 | \$ 23,465,812 | \$ 470,562      | \$ 39,005,441 |

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

UFP TECHNOLOGIES, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**



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|   | Years Ended December 31 |              |              |
|---|-------------------------|--------------|--------------|
|   | 2009                    | 2008         | 2007         |
| Cash flows from operating activities:   |                         |              |              |
| Net income  | \$ 5,981,984            | \$ 5,160,465 | \$ 4,231,471 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |              |              |
| Depreciation and amortization   | 2,895,062               | 2,976,550    | 2,815,021    |
| Restructuring charge leasehold improvement write-off                              |                         | 170,000      |              |
| Equity in net income of unconsolidated affiliate and partnership                  |                         | (7,218)      | (15,038)     |
| Gain on disposal of property, plant, and equipment                                | (11,206)                | (57,457)     | (32,500)     |
| Gain on acquisitions  | (839,690)               |              |              |
| Share-based compensation  | 900,813                 | 1,305,789    | 692,024      |
| Stock issued in lieu of compensation  | 183,500                 | 343,880      | 256,076      |
| Deferred income taxes   | 226,950                 | 16,469       | 1,209,664    |
| Changes in operating assets and liabilities, net of effects from acquisition:     |                         |              |              |
| Receivables, net  | (341,536)               | 777,392      | (166,829)    |
| Inventories   | 1,863,118               | (434,506)    | 53,051       |
| Prepaid expenses  | 72,715                  | 350,013      | (54,783)     |
| Accounts payable  | 392,641                 | (2,776,715)  | 1,073,753    |
| Accrued taxes and other expenses  | (330,726)               | (937,577)    | 760,267      |
| Retirement and other liabilities  | 204,553                 | (119,173)    | 94,560       |
| Other assets  | (509,425)               | (98,161)     | (228,077)    |
| Net cash provided by operating activities   | 10,688,753              | 6,669,751    | 10,688,660   |
| Cash flows from investing activities:   |                         |              |              |
| Additions to property, plant, and equipment                                       | (1,856,837)             | (2,763,250)  | (2,100,584)  |
| Acquisition of Stephenson & Lawyer net of cash acquired                           |                         | (5,181,066)  |              |
| Acquisition of Foamade Industries, Inc.'s assets                                  | (375,000)               |              |              |
| Acquisition of E.N. Murray Co. net of cash acquired                               | (1,440,534)             |              |              |
| Acquisition of Advanced Materials Group assets                                    | (620,000)               |              |              |
| Payments received on affiliated partnership                                       |                         | 7,218        | 15,038       |
| Proceeds from sale of property, plant, and equipment                              | 13,364                  | 101,020      | 32,500       |
| Net cash used in investing activities   | (4,279,007)             | (7,836,078)  | (2,053,046)  |
| Cash flows from financing activities:   |                         |              |              |
| Proceeds from long-term borrowings  | 4,000,000               |              | 786,000      |
| Distribution to United Development Company Partners (non-controlling interest)    | (105,000)               | (104,995)    | (104,994)    |
| Excess tax benefits on share-based compensation                                   | 23,421                  | 211,234      | 215,094      |
| Proceeds from sale of common stock  |                         | 20,563       | 23,895       |
| Proceeds from the exercise of stock options                                       | 130,332                 | 333,026      | 272,214      |
| Principal repayment of long-term debt   | (576,690)               | (714,027)    | (1,095,607)  |
| Principal repayment of obligations under capital leases                           | (1,612,665)             | (704,407)    | (688,991)    |
| Cash settlements of restricted stock units  |                         | (206,044)    |              |
| Net cash provided by (used in) financing activities                               | 1,859,398               | (1,164,650)  | (592,389)    |
| Net change in cash  | 8,269,144               | (2,330,977)  | 8,043,225    |
| Cash and cash equivalents at beginning of year                                    | 6,729,370               | 9,060,347    | 1,017,122    |
| Cash and cash equivalents at end of year  | \$ 14,998,514           | \$ 6,729,370 | \$ 9,060,347 |

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

UFP TECHNOLOGIES, INC.

**Notes to Consolidated Financial Statements**

December 31, 2009 and 2008

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



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UFP Technologies, Inc. ( the Company ) is an innovative designer and custom converter of foams, plastics, and natural fiber products principally serving the automotive, computer and electronics, medical, aerospace and defense, consumer, and industrial 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 Automotive Trim, Inc., Simco Technologies, Inc., and Stephenson & Lawyer, Inc. and its wholly-owned subsidiary, Patterson Properties Corporation. The Company also consolidates United Development Company Limited, of which the Company owns 26.32% (see Note 8). All significant inter-company balances and transactions have been eliminated in consolidation.

### (b) Codification

Effective July 1, 2009, the Financial Accounting Standards Board's ( FASB ) Accounting Standards Codification ( ASC ) became the single official source of authoritative, nongovernmental generally accepted accounting principles ( GAAP ) in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the Securities and Exchange Commission. The Company's accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the footnotes to the Company's consolidated financial statements have been changed to refer to the appropriate section of ASC.

### (c) 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, 2009.

### (d) Inventories

Inventories that include material, labor, and manufacturing overhead 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 adequate obsolescence 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 reserve balances as of December 31, 2009.

*(e) 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 (for financial statement purposes) and accelerated methods (for income tax purposes). Certain manufacturing machines that are dedicated to a specific program where total units to be produced over the life of the program are estimable are depreciated using the modified units of production method for financial statement purposes.

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

| <b>Leasehold improvements</b> | <b>Shorter of estimated useful life<br/>or remaining lease term</b> |
|-------------------------------|---|
| Buildings and improvements    | 31.5 years  |
| Equipment                     | 8-10 years  |
| Furniture and fixtures        | 5-7 years   |

Property, plant, and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) 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. Fair value is generally determined using a discounted cash flow analysis.

*(f) 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.



(g) *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 judgments. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue for any reporting period could be adversely affected.

(h) *Investments in Realty Partnership*

The Company has invested in Lakeshore Estates Associates, a realty limited partnership. The Lakeshore Estates investment is stated at cost, plus or minus the Company's proportionate share of the limited partnership's income or losses, less any distributions received from the limited partnership. The Company has recognized its share of Lakeshore Estates Associates' losses only to the extent of its original investment in, and advances to, this partnership. The Company's carrying amount for this investment is zero at December 31, 2009, and 2008, respectively.

(i) *Goodwill*

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. The Company's reporting units include its Component Products segment, Packaging segment (excluding its Molded Fiber operation), and its Molded Fiber operation. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company completed its most recent annual goodwill impairment test as of December 31, 2009. Fair values of the reporting units were determined using several valuation methodologies, including a combination of income and market approaches, which include the use of Level 1 and Level 3 inputs (Note 19). The fair values of both reporting units that had goodwill balances were estimated to be more than 100% greater than their respective carrying values and, therefore, it was determined that there was no goodwill impairment in 2009. There also was no goodwill impairment in 2008 or 2007.

(j) *Intangible Assets*

Intangible assets include patents and other intangible assets. Intangible assets with an indefinite life are not amortized. Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from eight to 14 years. Indefinite-lived intangible assets are 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. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their value may be reduced.





(k) *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, 2009, and 2008, cash equivalents primarily consisted of money market accounts and certificates of deposit that are readily converted into cash. The Company utilizes zero-balance disbursement accounts to manage its funds. As such, outstanding checks at the end of a year are reclassified to accounts payable. At December 31, 2009, and 2008, the amount reclassified was approximately \$1.6 million.

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 risk on cash.

(l) *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, 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.

(m) *Segments and Related Information*

The Company has adopted the provisions of ASC 280, *Segment Reporting*, which established standards for the way that public business enterprises report information and operating segments in annual financial statements, and requires reporting of selected information in interim financial reports (see Note 21).

(n) *Share-Based Compensation*

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

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

**Year Ended December 31**

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|  | 2009       | 2008         | 2007       |
|--|------------|--------------|------------|
| Selling, general, and administrative expense | \$ 900,813 | \$ 1,305,789 | \$ 692,024 |

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The compensation expense for stock options granted during the three-year period ended December 31, 2009, was determined as the intrinsic fair market value of the options, using a lattice-based option valuation model with the assumptions noted as follows:

|                         | Year Ended December 31                                    |  |   |
|-------------------------|---|--|---|
|                         | 2009  | 2008   | 2007  |
| Expected volatility     | 68.8% to 84.6%  | 88.0%  | 76.7% to 89.3%  |
| Expected dividends      | None  | None   | None  |
| Risk-free interest rate | 3.6%  | 4.0%   | 3.4% to 5.0%  |
| Exercise price          | Closing price<br>on date of grant                         | Closing price<br>on date of grant                  | Closing price<br>on date of grant                         |
| Imputed life            | 4.1 to 7.9 years<br>(output in<br>lattice-based<br>model) | 7.9 years<br>(output in<br>lattice-based<br>model) | 4.1 to 7.9 years<br>(output in<br>lattice-based<br>model) |

The weighted average grant date fair value of options granted during 2009, 2008, and 2007 was \$1.83, \$2.87, and \$2.38, respectively.

The total income tax benefit recognized in the statement of operations for share-based compensation arrangements was approximately \$291,000, \$458,000, and \$223,000, for the years ended December 31, 2009, 2008, and 2007, respectively.

*(o) Deferred Rent*

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

*(p) 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 as revenue.

*(q) 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, \$1.4 million, and \$1.3 million were expensed in the years ended December 31, 2009, 2008, and 2007, respectively.

*(r) Fair Value of Financial Instruments*

Cash and cash equivalents, accounts receivable, accounts payable, and accrued taxes and other expenses 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.

(s) *Fair Value Measurement*

The Company has adopted ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements for all assets and liabilities that are measured at fair value on either a recurring or non-recurring basis. 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.

(2) **New Accounting Pronouncements**



Non-Controlling Interests

The Company adopted updated guidance included in ASC 810, *Consolidation*, effective January 1, 2009. The updated guidance in ASC 810 requires (i) that non-controlling (minority) interests be reported as a component of stockholders' equity; (ii) that net income attributable to the parent and the non-controlling interest be separately identified in the consolidated statements of operations; (iii) that changes in a parent's ownership interest while the parent retains the controlling interest be accounted for as equity transactions; (iv) that any retained non-controlling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value; and (v) that sufficient disclosures be provided that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. As a result of the adoption, the Company has reported its non-controlling interest in United Development Company Limited ( UDT ) as a component of stockholders' equity in the consolidated balance sheets, and the net income attributable to its non-controlling interest in UDT has been separately identified in the consolidated statements of operations. The prior periods presented have also been reclassified to conform to the current classification required by ASC 810.

Business Combinations

The Company adopted updated guidance included in ASC 805, *Business Combinations*, effective January 1, 2009. ASC 805 now requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction, and establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this updated guidance will, among other things, impact the determination of acquisition date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. Implementation of this updated guidance resulted in the Company recognizing gains of approximately \$81,000 related to its



acquisition of selected assets of Foamade Industries, Inc. ( Foamade ) in the first quarter of 2009, as well as gains of approximately \$558,000 and \$201,000 related to its acquisition of selected assets of E.N. Murray Co. ( ENM ) and Advanced Materials, Inc. ( AMI ), a wholly-owned subsidiary of Advanced Materials Group, Inc., respectively, in the third quarter of 2009 (Note 19). Cumulative acquisition-related costs of \$90,000, that would otherwise have been included as part of the acquisition cost prior to the adoption of this updated guidance, were charged to expense as incurred.

Variable Interest Entities

In June 2009, the FASB issued guidance to change financial reporting of enterprises with variable interest entities ( VIEs ) to require an enterprise to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the enterprise (1) has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (2) has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Also, the guidance requires an ongoing reconsideration of the primary beneficiary and amends the events that trigger a reassessment of whether an entity is a VIE. Enhanced disclosures are also required to provide information about an enterprise's involvement in a VIE. This guidance shall be effective as of the beginning of the Company's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company is currently evaluating the impact of this new guidance.

**(3) Supplemental Cash Flow Information**



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Cash paid for interest and income taxes is as follows:

|                              | Years Ended December 31 |              |            |
|------------------------------|-------------------------|--------------|------------|
|                              | 2009                    | 2008         | 2007       |
| Interest                     | \$ 205,828              | \$ 355,221   | \$ 486,826 |
| Income taxes, net of refunds | \$ 1,648,764            | \$ 3,817,383 | \$ 322,824 |

### (4) Receivables



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Receivables consist of the following:

|   | <b>December 31</b> |               |
|---|--------------------|---------------|
|   | <b>2009</b>        | <b>2008</b>   |
| Accounts receivable - trade             | \$ 14,691,917      | \$ 13,141,912 |
| Less allowance for doubtful receivables | (473,912)          | (387,037)     |
|   | \$ 14,218,005      | \$ 12,754,875 |

The Company's accounts receivable balance is comprised of many accounts. The highest receivable account balance as of December 31, 2009, represented 6% of the total accounts receivable balance as of that date. The Company performs credit evaluations on its customers and obtains credit insurance on a large percentage of its accounts.

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The top customer in the Company's Component Products segment comprises 13% of that segment's total sales and 8% of the Company's total sales for the year ended December 31, 2009. The top customer in the Company's Packaging segment comprises 10.6% of that segment's total sales and 4.1% of the Company's total sales for the year ended December 31, 2009.

(5) **Inventories**



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Inventories consist of the following:

|                               | December 31  |              |
|-------------------------------|--------------|--------------|
|                               | 2009         | 2008         |
| Raw materials                 | \$ 4,924,228 | \$ 5,120,755 |
| Work in process               | 699,102      | 324,782      |
| Finished goods                | 2,574,813    | 3,012,984    |
| Less reserve for obsolescence | (550,626)    | (305,775)    |
|                               | \$ 7,647,517 | \$ 8,152,746 |

**(6) Other Intangible Assets**





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The carrying values of the Company's definite-lived intangible assets as of December 31, 2009, and 2008 are as follows:

|  | <b>Patents</b> | <b>Non-<br/>Compete</b> | <b>Customer<br/>List</b> | <b>Total</b> |
|--|----------------|-------------------------|--------------------------|--------------|
| Gross amount at December 31, 2009                | \$ 448,306     | \$ 200,000              | \$ 769,436               | \$ 1,417,742 |
| Accumulated amortization at<br>December 31, 2009 | (385,933)      | (53,240)                | (160,832)                | \$ (600,005) |
| Net balance at December 31, 2009                 | \$ 62,373      | \$ 146,760              | \$ 608,604               | \$ 817,737   |
| Gross amount at December 31, 2008                | 448,306        | 50,000                  | 120,436                  | \$ 618,742   |
| Accumulated amortization at<br>December 31, 2008 | (351,481)      | (26,720)                | (64,700)                 | \$ (442,901) |
| Net balance at December 31, 2008                 | \$ 96,825      | \$ 23,280               | \$ 55,736                | \$ 175,841   |

Amortization expense related to intangible assets was \$157,104, \$69,072, and \$69,072 for the years ended December 31, 2009, 2008, and 2007, respectively. Future amortization for the years ending December 31 will be approximately:

|                     |            |
|---------------------|------------|
| 2010                | \$ 228,872 |
| 2011                | 197,456    |
| 2012                | 159,800    |
| 2013                | 159,800    |
| 2014 and thereafter | 71,809     |
| Total:              | \$ 817,737 |



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



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Property, plant, and equipment consist of the following:

|  | December 31   |               |
|--|---------------|---------------|
|  | 2009          | 2008          |
| Land and improvements                        | \$ 589,906    | \$ 470,872    |
| Buildings and improvements                   | 6,579,670     | 6,496,542     |
| Leasehold improvements                       | 2,778,894     | 1,570,906     |
| Equipment                                    | 31,133,446    | 28,873,836    |
| Furniture and fixtures                       | 2,480,510     | 2,288,428     |
| Construction in progress equipment/buildings | 20,152        | 966,195       |
|  | \$ 43,582,578 | \$ 40,666,779 |

Depreciation and amortization expense for the years ended December 31, 2009, 2008, and 2007 was \$2,737,958, \$2,907,478, and \$2,745,948, respectively.

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



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The Company has a 26.32% ownership interest in a realty limited partnership, United Development Company Limited ( UDT ). The Company has consolidated the financial statements of UDT for all periods presented because it has determined that UDT is a VIE, and the Company is the primary beneficiary.

Included in the December 31 consolidated balance sheets are the following amounts related to UDT:

|                                    | December 31 |            |
|------------------------------------|-------------|------------|
|                                    | 2009        | 2008       |
| Cash                               | \$ 166,940  | \$ 148,746 |
| Net property, plant, and equipment | 1,187,966   | 1,311,273  |
| Accrued expenses                   | 12,900      | 12,900     |
| Current and long-term debt         | 703,341     | 737,289    |

### (9) Indebtedness





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On January 29, 2009, the Company amended and extended its credit facility with Bank of America, NA. The facility is comprised of: (i) a revolving credit facility of \$17 million; (ii) a term loan of \$2.1 million with a seven-year straight-line amortization; (iii) a term loan of \$1.8 million with a 20-year straight-line amortization; and (iv) a term loan of \$4.0 million with a 20-year straight-line amortization. Extensions of credit under the revolving credit facility are based in part upon accounts receivable and inventory levels. Therefore, the entire \$17 million may not be available to the Company. As of December 31, 2009, the Company had availability of approximately \$14.4 million based upon collateral levels in place as of that date. 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. The loans are collateralized by a first priority lien on all of the Company's assets, including its real estate

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located in Georgetown, Massachusetts, and in Grand Rapids, Michigan. Under the credit facility, the Company is subject to a minimum fixed-charge coverage financial covenant. The Company's \$17 million revolving credit facility matures November 30, 2013; the term loans are all due on January 29, 2016. At December 31, 2009, the interest rate on these facilities was 1.26%.

UDT has a mortgage note collateralized by the Florida facility, dated May 22, 2007. The note had an original principal balance of \$786,000 and calls for 180 monthly payments of \$7,147. The interest rate is fixed at approximately 7.2%.

The Company had capital lease debt of \$1,612,665 as of December 31, 2008, which was paid off in full with proceeds from the above credit facilities.

Long-term debt consists of the following:

|  | December 31  |              |
|--|--------------|--------------|
|  | 2009         | 2008         |
| Mortgage notes   | \$ 5,602,415 | \$ 1,859,000 |
| Note payable   | 1,778,224    | 2,062,405    |
| UDT mortgage   | 703,341      | 737,288      |
| Equipment loan   | 40,850       |              |
| Total long-term debt                                   | 8,124,830    | 4,658,693    |
| Current installments                                   | (623,007)    | (716,697)    |
| Long-term debt, excluding current installments         | \$ 7,501,823 | \$ 3,941,996 |
| Aggregate maturities of long-term debt are as follows: |              |              |
| Year ending December 31:                               |              |              |
| 2010   | \$ 623,007   |              |
| 2011   | 654,875      |              |
| 2012   | 622,685      |              |
| 2013   | 625,807      |              |
| 2014 and thereafter                                    | 5,598,456    |              |
|  | \$ 8,124,830 |              |

**(10) Accrued Taxes and Other Expenses**

Accrued taxes and other expenses consist of the following:

|                                    | <b>December 31</b>  |                     |
|------------------------------------|---------------------|---------------------|
|                                    | <b>2009</b>         | <b>2008</b>         |
| Compensation                       | \$ 2,116,597        | \$ 2,215,874        |
| Benefits / self-insurance reserve  | 648,791             | 901,580             |
| Paid time off                      | 764,576             | 688,315             |
| Commissions payable                | 334,356             | 370,432             |
| Plant consolidation                |                     | 316,000             |
| Income taxes payable (overpayment) | 389,384             | (573,953)           |
| Unrecognized tax benefits          | 545,000             | 560,000             |
| Other                              | 1,354,122           | 1,751,753           |
|                                    | <b>\$ 6,152,826</b> | <b>\$ 6,230,001</b> |

**(11) Income Taxes**

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The Company's income tax provision (benefit) for the years ended December 31, 2009, 2008, and 2007 consists of the following:

|                                   | Years Ended December 31 |                     |                     |
|-----------------------------------|-------------------------|---------------------|---------------------|
|                                   | 2009                    | 2008                | 2007                |
| <b>Current:</b>                   |                         |                     |                     |
| Federal                           | \$ 2,100,000            | \$ 2,270,000        | \$ 983,000          |
| State                             | 490,000                 | 709,000             | 391,000             |
|                                   | 2,590,000               | 2,979,000           | 1,374,000           |
| <b>Deferred:</b>                  |                         |                     |                     |
| Federal                           | 263,000                 | 41,000              | 1,147,000           |
| State                             | (36,000)                | (25,000)            | 63,000              |
|                                   | 227,000                 | 16,000              | 1,210,000           |
| <b>Total income tax provision</b> | <b>\$ 2,817,000</b>     | <b>\$ 2,995,000</b> | <b>\$ 2,584,000</b> |

At December 31, 2009, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$2,192,000 and for state income tax purposes of approximately \$1,545,000, which are available to offset future taxable income and expire during the federal tax years ending December 31, 2019 through 2024. The future benefit of the federal net operating loss carryforwards will be limited to approximately \$300,000 per year in accordance with Section 382 of the Internal Revenue Code.

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

|   | December 31 |              |
|---|-------------|--------------|
|   | 2009        | 2008         |
| Equity-based compensation                     | \$ 401,000  | \$ 387,000   |
| Compensation programs                         | 474,000     | 497,000      |
| Retirement liability                          | 95,000      | 184,000      |
| Net operating loss carryforwards              | 806,000     | 866,000      |
| Inventory capitalization                      | 230,000     | 246,000      |
| Reserves                                      | 489,000     | 412,000      |
| Other   | 49,000      | (5,000)      |
| Excess of book over tax basis of fixed assets | (930,000)   | (417,000)    |
| Goodwill                                      | (563,000)   | (499,000)    |
| Acquisition gains                             | (270,000)   |              |
| Inventory method change                       | (147,000)   | (295,000)    |
| Net deferred tax assets                       | \$ 634,000  | \$ 1,376,000 |

The amount recorded as net deferred tax assets as of December 31, 2009, and 2008 represents 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 believes that the net deferred tax asset of \$634,000 at December 31, 2009, is more likely than not to be realized in the carryforward period. This balance includes the tax benefit associated with the acquisition of the common stock of Stephenson & Lawyer, Inc., as discussed in Note 19. Management reviews the recoverability of deferred tax assets during each reporting period.

The actual tax provision for the years presented differs from the expected tax provision for those years, computed by applying the U.S. federal corporate rate of 34% to income before income tax expense as follows:

|   | Years Ended December 31 |        |        |
|---|-------------------------|--------|--------|
|   | 2009                    | 2008   | 2007   |
| Computed expected tax rate                          | 34.00%                  | 34.00% | 34.00% |
| Increase (decrease) in income taxes resulting from: |                         |        |        |
| State taxes, net of federal tax benefit             | 3.40                    | 5.60   | 4.50   |
| Meals and entertainment                             | 0.20                    | 0.20   | 0.30   |
| R&D credits   | (0.90)                  | (1.20) | (1.10) |
| Domestic production deduction                       | (1.70)                  | (2.10) |        |
| Non-deductible ISO stock option expense             | 0.20                    | 0.40   | 0.50   |
| Acquisition gains                                   | (3.30)                  |        |        |
| Other   | 0.10                    | (0.20) | (0.30) |
| Effective tax rate                                  | 32.00%                  | 36.70% | 37.90% |

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by the Internal Revenue Service since 2001 or by any states in connection with income taxes, with the exception of returns filed in

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Michigan (which have been audited through 2004) and income tax returns filed in Massachusetts for 2005 and 2006 (which are currently being audited). The tax returns for the years 2004 through 2006, and certain items carried forward from earlier years and utilized in those returns, 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:

|   | <b>Federal and State Tax</b> |             |
|---|------------------------------|-------------|
|   | <b>2009</b>                  | <b>2008</b> |
| Gross UTB balance at beginning of fiscal year | \$ 560,000                   | \$ 560,000  |
| Reductions for tax positions of prior years   | (15,000)                     |             |
| Gross UTB balance at December 31              | \$ 545,000                   | \$ 560,000  |

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2009, and 2008 are \$545,000 and \$560,000, respectively, for each year.

At December 31, 2009, and 2008, accrued interest and penalties on a gross basis, which are included above in the gross UTB balance, were \$115,000 for each year.

### (12) **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:

|   | Years Ended December 31 |           |           |
|---|-------------------------|-----------|-----------|
|   | 2009                    | 2008      | 2007      |
| Basic weighted average common shares outstanding during the year                          | 5,829,580               | 5,549,830 | 5,306,948 |
| Weighted average common equivalent shares due to stock options and restricted stock units | 464,384                 | 712,836   | 554,472   |
| Diluted weighted average common shares outstanding during the year                        | 6,293,964               | 6,262,666 | 5,861,420 |

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, 2009, 2008, and 2007, the number of stock awards excluded from the computation was 190,484, 41,769, and 29,877, respectively.





**(13) Stock Option and Equity Incentive Plans**

**Employee Stock Option Plan**



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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 five- to ten-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, 2009, there were 605,000 options outstanding under the Employee Stock Option Plan.

### **Incentive Plan**



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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 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 ).

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, nonqualified options, performance shares, or stock appreciation rights. The Company determines the form, terms, and conditions, if any, of any awards made under the Plan. The maximum number of shares of common stock, in the aggregate, that may be delivered in payment or in respect of stock issued under the Plan is 1,250,000 shares.

Through December 31, 2009, 675,958 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 276,124 shares are being reserved for outstanding grants of RSUs and other share-based compensation that are subject to various performance and time-vesting contingencies.





**Director Plan**



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Effective July 15, 1998, the Company adopted the 1998 Director Plan for the benefit of non-employee directors of the Company. The 1998 Director Plan provides for options for the issuance of up to 975,000 shares of common stock. These options become exercisable in full at the date of grant and expire 10 years from the date of grant. At December 31, 2009, there were 391,609 options outstanding under the 1998 Director Plan. On June 3, 2009, the 1998 Director Plan was amended to permit the issuance of other equity-based securities and was renamed the 2009 Non-Employee Director Stock Incentive Plan.

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

|  | Shares Under<br>Options | Weighted Average<br>Exercise Price | Aggregate Intrinsic<br>Value |
|--|-------------------------|------------------------------------|------------------------------|
| Outstanding December 31, 2008                    | 973,183                 | \$ 2.97                            |                              |
| Granted  | 69,301                  | 4.17                               |                              |
| Exercised  | (39,375)                | 3.31                               |                              |
| Cancelled or expired                             | (6,500)                 | 3.65                               |                              |
| Outstanding December 31, 2009                    | 996,609                 | \$ 3.03                            | \$ 3,458,233                 |
| Exercisable at December 31, 2009                 | 975,359                 | \$ 2.99                            | \$ 3,423,510                 |
| Vested and expected to vest at December 31, 2009 | 996,609                 | \$ 3.03                            | \$ 3,458,233                 |

The following is a summary of information relating to stock options outstanding and exercisable by price range as of December 31, 2009:

| Range of exercise prices | Options Outstanding           |   |                                    | Options Exercisable           |                                    |  |
|--------------------------|-------------------------------|---|------------------------------------|-------------------------------|------------------------------------|--|
|                          | Outstanding<br>as of 12/31/09 | Weighted<br>average<br>remaining<br>contractual<br>life (years) | Weighted average<br>exercise price | Exercisable<br>as of 12/31/09 | Weighted average<br>exercise price |  |
| \$0.00 - \$0.99          | 50,000                        | 2.1   | \$ 0.81                            | 50,000                        | \$ 0.81                            |  |
| \$1.00 - \$1.99          | 231,911                       | 3.1   | 1.15                               | 231,911                       | 1.15                               |  |
| \$2.00 - \$2.99          | 333,148                       | 3.2   | 2.49                               | 333,148                       | 2.49                               |  |
| \$3.00 - \$3.99          | 158,110                       | 3.7   | 3.26                               | 158,110                       | 3.26                               |  |
| \$4.00 - \$4.99          | 74,301                        | 8.3   | 4.22                               | 63,051                        | 4.22                               |  |
| \$5.00 - \$5.99          | 59,456                        | 6.3   | 5.14                               | 54,456                        | 5.14                               |  |
| \$6.00 - \$6.99          | 47,914                        | 5.7   | 6.18                               | 42,914                        | 6.14                               |  |
| \$10.00 - \$10.99        | 27,500                        | 8.5   | 10.14                              | 27,500                        | 10.14                              |  |
| \$12.00 - \$12.99        | 14,269                        | 8.4   | 12.37                              | 14,269                        | 12.37                              |  |
|                          | 996,609                       | 4.1   | \$ 3.03                            | 975,359                       | \$ 2.99                            |  |

During the years ended December 31, 2009, 2008, and 2007, 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 \$79,269, \$929,281, and \$357,426, respectively, and the

total amount of consideration received from the exercise of these options was \$130,332, \$333,026, and \$272,214, respectively.

During the years ended December 31, 2009, 2008, and 2007, the Company recognized compensation expense related to stock options granted to directors and employees of \$150,482, \$221,324, and \$211,050, respectively.

On February 24, 2009, the Company's Compensation Committee approved the issuance of 25,000 shares of unrestricted common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Equity Incentive Plan. The shares were issued on December 31, 2009. The Company has recorded compensation expense of \$106,000 for the year ended December 31, 2009, based on the grant date price of \$4.24 at February 24, 2009. Stock compensation expense of \$154,500 and \$115,997 was recorded in 2008 and 2007, respectively, for similar awards.

It has been the Company's practice to allow executive officers to take a portion of their earned bonuses in the form of the Company's common stock. The value of the stock received by executive officers, measured at the closing price of the stock on the date of grant, was \$183,500, \$343,880, and \$256,076 for the years ended December 31, 2009, 2008, and 2007, respectively.

Beginning in 2006, RSUs have been granted under the 2003 Incentive Plan to the executive officers of the Company. 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. Upon vesting, RSUs are, in some instances, net-share settled to cover the required withholding tax, and the remaining amount is converted into an equivalent number of common shares. 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, 2009:

|                                  | Restricted Stock<br>Units | Weighted Average<br>Award Date Fair Value |
|----------------------------------|---------------------------|---|
| Outstanding at December 31, 2008 | 352,000                   | \$ 5.79                                   |
| Awarded                          | 95,124                    | 4.24                                      |
| Shares distributed               | (171,000)                 | 5.83                                      |
| Shares exchanged for cash        |                           |   |
| Forfeited / Cancelled            |                           |   |
| Outstanding at December 31, 2009 | 276,124                   | \$ 5.19                                   |

The Company recorded \$644,331, \$929,965, and \$364,977 in compensation expense related to these RSUs during the years ended December 31, 2009, 2008, and 2007, respectively.

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The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2009, vest:

|              | <b>Options</b>   | <b>Common<br/>Stock</b> | <b>Restricted<br/>Stock Units</b> | <b>Total</b>      |
|--------------|------------------|-------------------------|-----------------------------------|-------------------|
| 2010         | \$ 27,904        | \$                      | \$ 431,451                        | \$ 459,355        |
| 2011         | 16,394           |                         | 265,509                           | 281,903           |
| 2012         | 5,312            |                         | 118,715                           | 124,027           |
| 2013         | 2,646            |                         | 16,805                            | 19,451            |
| <b>Total</b> | <b>\$ 52,256</b> | <b>\$</b>               | <b>\$ 832,480</b>                 | <b>\$ 884,736</b> |

**(14) Preferred Stock**

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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.

### (15) Supplemental Retirement Benefits

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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 \$35,000, \$27,000, and \$4,000 for the years ended December 31, 2009, 2008, and 2007, respectively. The present value of the supplemental retirement obligation has been calculated using an 8.5% discount rate, which is included in retirement and other liabilities. Total projected future cash payments for the years ending December 31, 2010 through 2013 are approximately \$96,250, \$75,000, \$75,000, and \$75,000, respectively, and approximately \$170,833 thereafter.

### **(16) Commitments and Contingencies**

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(a) Leases The Company has operating leases for certain facilities that expire through 2015. Certain of the leases contain escalation clauses that require payments of additional rent, as well as increases in related operating costs.

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Future minimum lease payments under non-cancelable operating leases as of December 31, 2009, are as follows:

| Years Ending December 31:    | Operating Leases |
|------------------------------|------------------|
| 2010                         | \$ 1,803,371     |
| 2011                         | 1,338,139        |
| 2012                         | 1,180,901        |
| 2013                         | 779,534          |
| Thereafter                   | 588,853          |
| Total minimum lease payments | \$ 5,690,798     |

Rent expense amounted to approximately \$2,442,000, \$2,214,000, and \$2,464,000, in 2009, 2008, and 2007, 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.

(17) **Employee Benefit Plans**

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The Company maintains a profit-sharing plan for eligible employees. Contributions to the Plan are made in the form of matching contributions to employee 401k deferrals, as well as discretionary amounts determined by the Board of Directors, and amounted to approximately \$709,000, \$703,000, and \$646,000 in 2009, 2008, and 2007, 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 \$100,000 per insured person, along with an aggregate stop loss determined by the number of participants.

During 2006, the Company established 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 by 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 investment income on the Plan, 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, 2009, the balance of the deferred compensation liability totaled approximately \$753,000. 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 \$749,000 as of December 31, 2009.

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



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Financial instruments recorded at fair value in the balance sheets, or disclosed at fair value in the footnotes, are categorized below 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's assets and liabilities that are measured at fair value consist of money market funds and certificates of deposit, both considered cash equivalents, which are categorized by the levels discussed above and in the table below:

| <b>Cash Equivalents</b> | <b>Level 1</b>    | <b>Level 2</b>      | <b>Level 3</b> | <b>Total</b>        |
|-------------------------|-------------------|---------------------|----------------|---------------------|
| Money market funds      | \$ 100,000        | \$                  | \$             | \$ 100,000          |
| Certificates of deposit | \$                | \$ 3,000,000        | \$             | \$ 3,000,000        |
| <b>Total</b>            | <b>\$ 100,000</b> | <b>\$ 3,000,000</b> | <b>\$</b>      | <b>\$ 3,100,000</b> |

As of December 31, 2009, the Company does not have any significant non-recurring measurements of non-financial assets and non-financial liabilities. The Company may have additional disclosure requirements in the event an impairment of the Company's non-financial assets occurs in a future period.

## (19) **Acquisitions**



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On March 9, 2009, the Company acquired selected assets of the Hillsdale, Michigan, operations of Foamade. The Hillsdale operations of Foamade specialized in the fabrication of technical urethane foams for a myriad of industries and bring to the Company further penetration into applications using this family of foams, as well as incremental sales to fold into its operations. The Company has transitioned the acquired assets to its Grand Rapids, Michigan, plant.

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On July 7, 2009, the Company acquired substantially all of the assets of ENM, a Denver, Colorado-based foam fabricator, for \$2,750,000. ENM specialized in the fabrication of technical urethane foams primarily for the medical industry. This acquisition brings to the Company further access and expertise in fabricating technical urethane foams and a seasoned management team. The Company has leased the former ENM Denver facilities for a period of two years.

On August 24, 2009, the Company acquired selected assets of AMI for \$620,000. Located in Rancho Dominguez, California, AMI specialized in the fabrication of technical urethane foams primarily for the medical industry and brings to the Company further penetration into this market. The Company has assumed the lease of the 56,000-square-foot Rancho Dominguez location that is due to expire in November 2010.

The Company recorded gains of approximately \$81,000, \$558,000, and \$201,000 on the acquisitions of selected assets of Foamade, ENM, and AMI, respectively, as it acquired the assets in bargain purchases. The Company believes that the bargain purchase gains resulted from opportunities created by the overall weak economy.

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

|  | <b>Foamade</b><br><b>9-Mar-2009</b> | <b>ENM</b><br><b>7-Jul-2009</b> | <b>AMI</b><br><b>24-Aug-2009</b> |
|--|-------------------------------------|---------------------------------|----------------------------------|
| <b>Consideration</b>                                       |                                     |                                 |                                  |
| Cash   | \$ 375,000                          | \$ 2,750,000                    | \$ 620,000                       |
| Fair value of total consideration transferred              | \$ 375,000                          | \$ 2,750,000                    | \$ 620,000                       |
| Acquisition costs (legal fees) included in SG&A            | \$ 25,000                           | \$ 30,000                       | \$ 35,000                        |
| <b>Recognized amounts of identifiable assets acquired:</b> |                                     |                                 |                                  |
| Cash   | \$                                  | \$ 1,309,466                    | \$                               |
| Accounts receivable  | 0                                   | 832,054                         | 289,540                          |
| Inventory  | 182,864                             | 922,497                         | 252,528                          |
| Other assets   |                                     | 37,708                          |                                  |
| Fixed assets   | 189,100                             | 812,000                         | 345,750                          |
| Non-compete  | 30,000                              | 120,000                         |                                  |
| Customer list  | 103,000                             | 490,000                         | 56,000                           |
| Total identifiable net assets                              | \$ 504,964                          | \$ 4,523,725                    | \$ 943,818                       |
| Payables and accrued expenses                              | \$                                  | \$ (830,341)                    | \$                               |
| Equipment loan   |                                     | (42,827)                        |                                  |
| Deferred tax liabilities                                   | (49,386)                            | (342,212)                       | (123,051)                        |
| Net assets acquired  | \$ 455,578                          | \$ 3,308,345                    | \$ 820,767                       |

With respect to the acquisition of selected assets of ENM, the Company acquired gross accounts receivable of \$873,919, of which it deemed \$41,865 to be uncollectible. It therefore recorded the accounts receivable at its fair market value of \$832,054. With respect to the acquisition of selected assets of AMI, the Company acquired gross accounts receivable of \$324,540, of which it deemed \$35,000 to be uncollectible. It therefore recorded the accounts receivable at its fair market value of \$289,540. With respect to the noncompete and customer



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list intangible assets acquired from Foamade, ENM, and AMI, the weighted average amortization period is five years. No residual balance is anticipated for any of the intangible assets.

The following table contains an unaudited pro forma condensed consolidated statement of operations for the years ended December 31, 2009, and 2008, as if the ENM acquisition had occurred at the beginning of the respective periods:

|                            | Years Ended December 31 |             |      |             |
|----------------------------|-------------------------|-------------|------|-------------|
|                            | 2009                    |             | 2008 |             |
| Sales                      | \$                      | 105,228,869 | \$   | 123,049,859 |
| Net income                 |                         | 6,070,518   |      | 5,615,326   |
| <i>Earnings Per Share:</i> |                         |             |      |             |
| Basic                      | \$                      | 1.04        | \$   | 1.01        |
| Diluted                    |                         | 0.96        |      | 0.90        |

It is impractical to determine the amount of sales and earnings that would have been recorded, had the Foamade and AMI acquisitions occurred on January 1, 2009, or January 1, 2008, as records for these time periods are unavailable since the Company only acquired selected assets and not the entire operations. The following table contains the 2009 sales and net income associated with ENM and AMI from the date of acquisition through December 31, 2009:

|            | ENM |           | AMI |           |
|------------|-----|-----------|-----|-----------|
| Sales      | \$  | 6,396,000 | \$  | 1,149,000 |
| Net income |     | 381,000   |     | (74,000)  |

The amount of revenue included in the Company's condensed consolidated statements of operations for the year ended December 31, 2009, associated with the acquisition of Foamade is approximately \$3,078,000. The Company is unable to break out the Foamade net income as these products have been merged into its Grand Rapids, Michigan, facility (Component Products) and have become part of that reporting unit.

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 ENM acquisition occurred as presented. In addition, future results may vary significantly from the results reflected in such pro forma information.

(20) **Plant Consolidation**



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On August 5, 2008, the Company committed to move forward with a plan to close its Macomb Township, Michigan, automotive plant and consolidate operations into its newly acquired 250,000-square-foot building in Grand Rapids, Michigan. Through December 31, 2008, the Company recorded restructuring charges of approximately \$1.3 million in one-time, pre-tax expenses and, through December 31, 2009, invested approximately \$759,000 in building improvements in the Grand Rapids facility. The Company does not expect to incur additional costs.

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Through the year ended December 31, 2009, the Company has recorded the following activity:

|                     | Ending Restructuring<br>Accrual Balance |                | Cash Payments in<br>the 12 Months Ended |                | Ending Restructuring<br>Accrual Balance |  |
|---------------------|---|----------------|---|----------------|---|--|
|                     | 31-Dec-2008                             |                | 31-Dec-2009                             |                | 31-Dec-2009                             |  |
| Earned severance    | \$                                      | 116,000        | \$                                      | 116,000        | \$                                      |  |
| Moving and training |   | 200,000        |   | 200,000        |   |  |
|                     | \$                                      | <b>316,000</b> | \$                                      | <b>316,000</b> | \$                                      |  |



(21) **Segment Data**

(21) **Segment Data**



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The Company is organized based on the nature of the products and services that it offers. Under this structure, the Company produces products within two distinct segments: Packaging and Component Products. Within the Packaging segment, the Company primarily uses polyethylene and polyurethane foams, sheet plastics, and pulp fiber to provide customers with cushion packaging for their products. Within the Component Products segment, the Company primarily uses cross-linked polyethylene foam to provide customers in the automotive, athletic, leisure, and health and beauty industries with engineered product for numerous purposes.

The accounting policies of the segments are the same as those described in Note 1. Income taxes and interest expense have been allocated based on operating results and total assets employed in each segment.

Inter-segment transactions are uncommon and not material. Therefore, they have not been separately reflected in the financial table below. The totals of the reportable segments' revenues, net profits, and assets agree with the Company's consolidated amounts contained in the audited financial statements. Revenues from customers outside of the United States are not material.

The top customer in the Company's Component Products segment comprises 13% of that segment's total sales and 8% of the Company's total sales for the year ended December 31, 2009. The top customer in the Company's Packaging segment comprises 10.6% of that segment's total sales and 4.1% of the Company's total sales for the year ended December 31, 2009.

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



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Financial statement information by reportable segment is as follows:

| 2009                        | Component     |               |               |
|-----------------------------|---------------|---------------|---------------|
|                             | Products      | Packaging     | Total         |
| Sales                       | \$ 60,973,325 | \$ 38,258,009 | \$ 99,231,334 |
| Operating income            | 5,806,122     | 2,374,288     | 8,180,410     |
| Total assets                | 25,409,608    | 34,042,188    | 59,451,796    |
| Depreciation / Amortization | 1,658,290     | 1,236,772     | 2,895,062     |
| Capital expenditures        | 989,027       | 867,810       | 1,856,837     |
| Interest expense            | 90,121        | 142,626       | 232,747       |
| Goodwill                    | 4,463,246     | 2,017,791     | 6,481,037     |

| 2008                        | Component     |               |                |
|-----------------------------|---------------|---------------|----------------|
|                             | Products      | Packaging     | Total          |
| Sales                       | \$ 60,847,533 | \$ 49,184,068 | \$ 110,031,601 |
| Operating income            | 3,076,360     | 5,348,371     | 8,424,731      |
| Total assets                | 22,098,941    | 26,623,720    | 48,722,661     |
| Depreciation / Amortization | 1,820,239     | 1,156,311     | 2,976,550      |
| Capital expenditures        | 1,053,622     | 1,709,628     | 2,763,250      |
| Interest expense            | 139,586       | 194,707       | 334,293        |
| Goodwill                    | 4,463,246     | 2,017,791     | 6,481,037      |

| 2007                        | Component     |               |               |
|-----------------------------|---------------|---------------|---------------|
|                             | Products      | Packaging     | Total         |
| Sales                       | \$ 53,782,483 | \$ 39,812,657 | \$ 93,595,140 |
| Operating income            | 4,767,544     | 2,479,810     | 7,247,354     |
| Total assets                | 18,665,208    | 26,887,566    | 45,552,774    |
| Depreciation / Amortization | 1,875,488     | 939,533       | 2,815,021     |
| Capital expenditures        | 309,600       | 1,790,984     | 2,100,584     |
| Interest expense            | 174,171       | 305,000       | 479,171       |
| Goodwill                    | 4,463,246     | 2,017,791     | 6,481,037     |



(22) **Quarterly Financial Information (unaudited)**

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|   | Q1            | Q2            | Q3            | Q4            |
|---|---------------|---------------|---------------|---------------|
| <b>Year Ended December 31, 2009</b>               |               |               |               |               |
| Net sales   | \$ 21,607,763 | \$ 20,959,033 | \$ 27,620,250 | \$ 29,044,288 |
| Gross profit                                      | 4,942,788     | 5,370,964     | 7,454,276     | 8,951,387     |
| Net income attributable to UFP Technologies, Inc. | 344,961       | 566,198       | 2,112,742     | 2,905,524     |
| Basic net income per share                        | 0.06          | 0.10          | 0.36          | 0.49          |
| Diluted net income per share                      | 0.06          | 0.09          | 0.34          | 0.45          |
| <b>Year Ended December 31, 2008</b>               |               |               |               |               |
| Net sales   | \$ 28,008,036 | \$ 28,456,090 | \$ 27,501,379 | \$ 26,066,096 |
| Gross profit                                      | 6,888,126     | 7,627,616     | 7,410,354     | 6,636,966     |
| Net income attributable to UFP Technologies, Inc. | 1,148,141     | 1,574,222     | 1,247,285     | 1,146,352     |
| Basic net income per share                        | 0.21          | 0.29          | 0.22          | 0.20          |
| Diluted net income per share                      | 0.19          | 0.25          | 0.20          | 0.19          |

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## UFP TECHNOLOGIES, INC.

## Consolidated Financial Statement Schedule

## Valuation and Qualifying Accounts

Years ended December 31, 2009, 2008, and 2007

Accounts receivable, allowance for doubtful accounts:

|  | 2009       |    | 2008    |    | 2007     |
|--|------------|----|---------|----|----------|
| Balance at beginning of year               | \$ 387,037 | \$ | 307,131 | \$ | 340,977  |
| Provision (Recoveries) credited to expense | 155,069    |    | 64,320  |    | 58,025   |
| (Write-offs) and recoveries                | (68,194)   |    | 15,586  |    | (91,871) |
| Balance at end of year                     | \$ 473,912 | \$ | 387,037 | \$ | 307,131  |

Inventory allowance for obsolescence:

|                              | 2009       |    | 2008      |    | 2007      |
|------------------------------|------------|----|-----------|----|-----------|
| Balance at beginning of year | \$ 305,775 | \$ | 295,405   | \$ | 240,820   |
| Provision                    | 382,033    |    | 222,661   |    | 243,141   |
| Write-offs                   | (137,182)  |    | (212,291) |    | (188,556) |
| Balance at end of year       | \$ 550,626 | \$ | 305,775   | \$ | 295,405   |

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