UFP TECHNOLOGIES

DRIVEN. DISCIPLINED. DIFFERENTIATED.

2020 ANNUAL REPORT

UFP Technologies, Inc. (Nasdaq: UFPT) is an innovative designer and custom manufacturer of components, subassemblies, products and packaging primarily for the medical market.

Utilizing highly specialized foams, films and plastics, UFP converts raw materials through laminating, molding, radio frequency welding and fabricating techniques. The Company is diversified by also providing highly engineered solutions to customers in the aerospace & defense, automotive, consumer, electronics and industrial markets.

Learn more about us at www.ufpt.com.

CONTENTS

I believe our capabilities and experience are special, and no competitor can match all the ways we help customers succeed.

DEAR FELLOW SHAREHOLDER,

2020 was a challenging year, as a range of issues related to the COVID-19 pandemic affected just about every aspect of our business. Although sales declined 9.6% compared to 2019, we ended the year solidly in the black with $13.4 million in net profit and increased our cash balance by more than $20 million. We also improved our business in important ways and ended the year a leaner, more nimble, more resilient company.

Our team did a great job responding to the pandemic. Priority one was keeping our associates and visitors safe. We quickly revised the layout of our factories, distancing workers and adding new safety protocols. We turned conference rooms into cafeterias, adopted strict cleaning and monitoring routines, and generally did whatever was needed to fill customer orders safely. This process showed the agility of our workforce, as team members from various departments shifted into new roles — including office staff making parts in the factories — when attendance challenges arose. I am deeply grateful to all our employees for their discipline, commitment and make-it-happen attitude.

Supply chain issues were another big challenge. When the pandemic struck, we quickly increased our reserves of key raw materials. This proved to be a prescient move as supplies, including certain raw materials on allocation, became extremely limited as the year progressed. Thanks to our longstanding supplier partnerships and purchasing power, we worked through those issues to meet our customers' critical needs. Partnerships and long-term supply agreements form a critical component of our customer and supplier strategies; they enable us and our partners to make long-term investments that further strengthen our competitive position.

PRODUCT DEVELOPMENT REVENUES UP 63%

Our product development group had a banner year. This business is important to us for a number of reasons. New development programs increase our technical skills, strengthen our customer relationships and provide future potential manufacturing revenue. Please see page 7 to learn more.

This group also stepped up with new pandemic-related offerings such as face shields and other Personal Protective Equipment. This PPE added roughly $3.5

million in new revenue, another example of our ability to adapt to changing market needs. With these new offerings, we also ramped up our charitable giving to support the hospitals, nursing homes and first responders in our communities. Being a good corporate citizen has always been important to us; this year it felt more important than ever.

LEANER COMPANY, HIGHER MARGINS

If the COVID-related sales decline had an upside, it's that it forced us to review every process and department for opportunities to reduce costs and streamline operations. We completed a series of cost-saving initiatives, including a difficult but necessary reduction of our workforce, which alone amounted to $5 million in annualized savings. Through additional cost-cutting measures, we took millions more out of the business. These efficiency improvements led to steady gains in gross margins throughout the year, from 23.3% in Q2, to 24.3% in Q3, to 25.2% in Q4. I am confident that millions of dollars of savings from these initiatives will be permanent and, when sales volumes return to pre-pandemic levels, we will be a stronger, more profitable company.

LOOKING AHEAD TO LONG-TERM PROFITABLE GROWTH

This complicated but successful year proved one thing: our unique skills, strong partnerships and dedication to our customers can help us meet just about any market challenge. As the economy rebounds, we will continue to shift our business mix to more medical opportunities. This is where our engineering and production skills add the most value, and where we therefore enjoy the highest margins. We will continue to invest in product development to build closer ties with our customers and fill our manufacturing pipeline. That means adding new talent and finding new ways to create more value leveraging off our unique capabilities.

I believe our capabilities and experience are special, and no competitor can match all the ways we help customers succeed. We remain very bullish about our differentiated competitive position, disciplined in our approach and driven to take UFP to new heights of success.

Sincerely,

R. Jeffrey Bailly
Chairman and CEO

UNIQUE SKILLS, POWERFUL ADVANTAGES

Simply stated, there is no company quite like UFP. Our range of capabilities and experience with complex projects are unrivaled and will continue to separate us from our competitors.

For us, everything starts with superior engineering. We believe we have the finest engineering team in the industry, and our talent base is getting stronger all the time. Our team’s ability to create effective solutions to very difficult customer challenges remains our strongest competitive advantage.

Customers also place a high value on our materials expertise and production systems. With our vendor exclusivity agreements, they rely on us for access

to critical materials and technologies. These agreements also help protect our product innovations and lock us in to the kinds of high-value programs that best fit our skills. And with our precision manufacturing capabilities, customers know their solutions will be of the absolute highest quality.

We will continue to apply our resources where opportunities are greatest and move more of our business to the complex, high-value, long-running programs at which we excel. Superior engineering. Access to innovative materials. Precision manufacturing. It’s a powerful combination that our customers really appreciate.

MAKING MEDICAL PROGRAMS AN EVEN BIGGER PART OF OUR BUSINESS

For years, we've been moving more of our business to high-margin, long-running medical programs, where our skills align best with customer needs. We now have multiple FDA-approved plants and extensive clean room facilities with advanced systems to ensure quality. And our customers include most of the world's leading medical device manufacturers, in areas like infection prevention, wound care, orthopedics and minimally invasive surgery.

In 2020, orders increased for our infection prevention products and patient surfaces such as medical mattresses. However, as COVID rates rose throughout the country, orders related to elective surgeries slowed dramatically. Once the pandemic subsides, we expect revenue connected to elective surgeries to rebound strongly and demand for our highly specialized medical solutions to begin growing once again.

A STRONG YEAR IN PRODUCT DEVELOPMENT

Our product development business was a definite bright spot in 2020, growing by 63%. This is especially noteworthy because many customers put new product work on hold during this challenging year. This strong increase in our development business bodes well for revenue growth in 2021 and beyond.

Customers collaborate with us to help develop their product ideas. This early engagement puts us in excellent position to be their ultimate manufacturing partner. In recent years, there are many examples of concepts that our development group brought to fruition and went on to become long-lasting, lucrative product lines in our factories. To meet the increasing demand, we expanded our Newburyport development lab and brought on new engineering talent. Looking ahead, we will continue our efforts to grow our business organically through expanded product development work and by providing additional products and services to current customers.

SELECTED FINANCIAL DATA

The following table summarizes the Company's consolidated financial data for the periods presented. You should read the following financial information together with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and the notes to those financial statements appearing elsewhere in this Report. The selected statements of income data for the years ended December 31, 2020, 2019 and 2018 and the selected balance sheet data as of December 31, 2020 and 2019, are derived from our audited consolidated financial statements, which are included elsewhere in this Report. The selected statements of income data for the years ended December 31, 2017 and 2016 and the selected balance sheet data at December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements not included in this Report.

SELECTED CONSOLIDATED FINANCIAL DATA

	Years Ended December 31 (in thousands, except per share data)				
Consolidated Statements of Income data	**2020**	**2019**	**2018**	**2017**	**2016**
Net sales	$ 179,373	$ 198,381	$ 190,455	$ 147,843	$ 146,132
Gross profit	$ 44,684	$ 53,959	$ 48,308	$ 35,487	$ 34,650
Operating income	$ 16,732	$ 24,708	$ 19,612	$ 11,693	$ 12,237
Net income from consolidated operations	$ 13,369	$ 19,750	$ 14,311	$ 9,210	$ 7,970
Diluted earnings per common share	$ 1.77	$ 2.63	$ 1.93	$ 1.26	$ 1.10
Weighted average number of diluted common shares outstanding	7,568	7,516	7,430	7,337	7,275

	As of December 31 (in thousands)				
Consolidated Balance Sheets data	**2020**	**2019**	**2018**	**2017**	**2016**
Working capital	$ 56,727	$ 36,466	$ 34,968	$ 65,131	$ 60,291
Total assets	$ 203,204	$ 188,758	$ 189,598	$ 138,207	$ 127,934
Current installments of long-term debt	$ -	$ -	$ 2,857	$ -	$ 856
Long-term debt, excluding current installments	$ -	$ -	$ 22,286	$ -	$ -
Total liabilities	$ 26,311	$ 26,767	$ 49,141	$ 14,495	$ 14,881
Total stockholders' equity	$ 176,893	$ 161,991	$ 140,457	$ 123,712	$ 113,053

MARKET PRICE

The Company's common stock is listed on the NASDAQ Capital Market under the symbol "UFPT". 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, 2019 to December 31, 2020:

Fiscal Year Ended December 31, 2019	High	Low
First Quarter	$ 37.58	$ 27.80
Second Quarter	42.87	34.05
Third Quarter	46.42	38.00
Fourth Quarter	50.00	38.22

Fiscal Year Ended December 31, 2020	High	Low
First Quarter	$ 52.59	$ 30.80
Second Quarter	47.77	34.06
Third Quarter	48.77	37.39
Fourth Quarter	48.96	36.69

NUMBER OF STOCKHOLDERS

As of March 4, 2021, there were 74 holders of record of the Company's common stock.

Since 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 beneficial stockholders represented by these holders of record.

DIVIDENDS

The Company did not pay any dividends in 2020 or 2019. The Company presently intends to retain all its earnings to provide funds for the operation of its business and strategic acquisitions, although it would consider paying cash dividends in the future. Any decision to pay dividends will be at the discretion of the Company's Board of Directors and will depend upon the Company's operating results, strategic plans, capital requirements, financial condition, provisions of the Company's borrowing arrangements, applicable law and other factors the Company's Board of Directors considers relevant.

ISSUER PURCHASES OF EQUITY SECURITIES

On June 16, 2015, the Company issued a press release announcing that its Board of Directors authorized the repurchase of up to $10.0 million of the Company's outstanding common stock. There was no share repurchase activity for the years ended December 31, 2020, 2019 and 2018. During the year ended December 31, 2015, the Company repurchased 29,559 shares of common stock at a cost of approximately $587 thousand. At December 31, 2020, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

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

OVERVIEW

The Company is an innovative designer and custom manufacturer of components, subassemblies, products and packaging utilizing highly specialized foams, films and plastics primarily for the medical market. The Company manufactures its products by converting raw materials using laminating, molding, radio frequency and impulse welding and fabricating manufacturing techniques. The Company is diversified by also providing highly engineered products and components to customers in the aerospace and defense, automotive, consumer, electronics and industrial markets. The Company consists of a single operating and reportable segment.

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

As further summarized below, the COVID-19 pandemic has had, and we believe it will continue to have, negative effects on our business and financial results. In particular, sales for the Company for the year ended December 31, 2020 decreased 9.6% to $179.4 million from $198.4 million for the year ended December 31, 2019, primarily due to the impact on demand for product as a result of the COVID-19 pandemic. Gross margin decreased to 25.0% for the year ended December 31, 2020, from 27.2% in 2019. Operating income and net income for the year ended December 31, 2020 both decreased by 31.7%, respectively.

IMPACT OF COVID-19 ON OUR BUSINESS

Through much of 2020, COVID-19 spread across the country to areas in which our products are designed, manufactured, distributed or sold. The spread of COVID-19 and the response to it negatively impacted operating conditions for our business in 2020. Although we expect COVID-19 will continue to have negative impacts on our operating results in future periods, the magnitude and duration of the continuing impact are uncertain.

To stall the spread of COVID-19, authorities in states in which we do business implemented numerous measures, including social distancing guidelines, travel bans and restrictions, quarantines, curfews, stay-at-home orders and business shutdowns. These measures have impacted and will likely further impact us, our customers, consumers, employees, suppliers and other third parties with whom we do business. It is uncertain how these and any future measures in response to the pandemic will impact our business, including whether and to what extent they will result in further changes in demand for our products or further increases in operating costs. The timing of distribution and the effectiveness of recently introduced vaccines are also uncertain. Our top priorities continue to be ensuring the health and safety of our workforce and serving our various constituencies with as little disruption as possible.

Our operations expose us to risks associated with the COVID-19 pandemic. The COVID-19 pandemic has impacted the cost of manufacturing our goods, including higher labor costs, maintenance costs and manufacturing inefficiencies due to employee absenteeism and significantly enhanced cleaning and sterilization. Elective medical procedures and exams have been delayed or canceled, there has been a significant reduction in physician office visits, and hospitals have postponed or canceled capital purchases. We believe that these responses negatively impacted demand for the Company's components for medical devices. Additionally, many of our customers in the automotive markets experienced closures of their businesses in connection with the pandemic. Such closures negatively impacted the demand for our automobile component products particularly in the second quarter. Any continued reduced demand for our products, including reduced need for components for medical devices as well as continued economic uncertainty, could adversely and materially affect our business, financial condition and results of operations, as well as those of our customers.

To ensure the health and safety of our employees and to comply with governmental orders, since March 2020 we have required or enabled certain employees to work from home or remotely where practicable, and expanded IT and communication support to enhance their productivity; adjusted work spaces and shifted schedules to facilitate social distancing and sterilization for those who continue to work in our facilities; enhanced cleaning and disinfecting procedures at our facilities; required face coverings and worked to procure and distributed personal protective equipment; implemented health checks and visitor protocols and restricted travel.

In response to the economic uncertainties resulting from the COVID-19 pandemic, we initiated and at present are continuing certain cost-cutting measures, including restrictions on travel and labor cost reduction measures (including employee terminations).

Although the impact of the pandemic on our business and financial results will depend on future developments that are highly uncertain and cannot be predicted, and which may vary by market, we have a strong liquidity position, solid balance sheet and access to capital which we expect will enable us to effectively manage through the COVID-19 pandemic.

Coronavirus Aid, Relief, and Economic Security Act ("CARES Act")

The CARES Act was enacted on March 27, 2020, in the United States. The CARES Act and related notices include several significant provisions, including delaying certain payroll tax payments and estimated income tax payments that we expect to defer to future periods. Accordingly, the Company has deferred Social Security payments of approximately $1.6 million as of December 31, 2020. We do not currently expect the CARES Act to have a material impact on our financial results, including on our annual estimated effective tax rate or on our liquidity. We will continue to monitor and assess the impact the CARES Act may have on our business and financial results.

Results of Operations

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

	2020	**2019**	**2018**
Net sales	100.0%	100.0%	100.0%
Cost of sales	75.1%	72.8%	74.6%
Gross profit	**24.9%**	**27.2%**	**25.4%**
Selling, general and administrative expenses	15.3%	14.7%	14.5%
Loss on sale of fixed assets	0.3%	0.0%	0.0%
Acquisition costs	0.0%	0.0%	0.6%
Operating income	**9.3%**	**12.5%**	**10.3%**
Total other expense	0.2%	0.5%	0.7%
Income before taxes	**9.1%**	**12.0%**	**9.6%**
Income tax expense	1.6%	2.0%	2.1%
Net income from consolidated operations	**7.5%**	**10.0%**	**7.5%**

2020 COMPARED TO 2019

Sales

Net sales decreased 9.6% to $179.4 million for the year ended December 31, 2020, from net sales of $198.4 million in 2019. The decrease in sales was primarily due to the impact on demand for product as a result of the COVID-19 pandemic. We believe that the cancellation or delay of elective medical procedures in connection with the COVID-19 pandemic has had a negative impact on the demand for the Company's components for medical devices. We refer you to "Impact of COVID-19 on our Business" above for additional discussion of product demand.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") decreased to 24.9% for the year ended December 31, 2020, from 27.2% in 2019. As a percentage of sales, material and direct labor costs collectively decreased approximately 2.2%, while overhead increased approximately 4.4%. The decrease in collective material and labor costs as a percentage of sales was primarily due to gains in manufacturing efficiencies resulting from continuous improvement initiatives and an improvement in the overall book of business. The increase in overhead as a percentage of sales was primarily due to fixed overhead costs measured against decreased sales.

Selling, General and Administrative Expenses

Selling, General and Administrative Expenses ("SG&A") decreased approximately 6.0% to $27.5 million for the year ended December 31, 2020, from $29.3 million in 2019. As a percentage of sales, SG&A increased to 15.3%, from 14.7% in 2019. The decrease in SG&A was primarily due to decreases in compensation programs and company-wide travel and entertainment. The increase in SG&A as a percentage of sales was primarily due to relatively fixed SG&A expenses measured against lower sales.

Interest Income and Expense

Net interest expense was approximately $83 thousand and $674 thousand for the years ended December 31, 2020 and 2019, respectively. The decrease in net interest expense was primarily due to lower debt levels.

Other Expense

Other expense was approximately $366 thousand and $388 thousand for years ended December 31, 2020 and 2019, respectively. Other expense was primarily generated by changes in the fair value of the swap liability, which is driven by anticipated future interest rate changes as well as a declining notional amount.

Income Taxes
The Company recorded income tax expense, as a percentage of income before income tax expense, of 17.9% for the year ended December 31, 2020, compared to 16.5% for the same period in 2019. The increase in the effective tax rate for the current period as compared to the prior period was largely due to a lower anticipated effective tax rate in 2019 due to credits available for increased research activities. The Company notes the potential for volatility in its effective tax rate, as any windfall or shortfall tax benefits related to its share-based compensation plans will be recorded directly into income tax expense.

2019 COMPARED TO 2018

Sales
Net sales increased 4.2% to $198.4 million for the year ended December 31, 2019, from net sales of $190.5 million in 2018. The increase in sales was primarily due to increased sales to customers in the medical, and aerospace and defense markets of 16.9%, and 5.0%, respectively. These increases were partially offset by a collective decline in sales to the consumer, electronics and industrial markets of 24.1%. The increase in sales to customers in the medical market was primarily due to strong sales at Dielectrics (including one additional month of sales of $3.1 million) as well as increased demand from legacy UFP medical customers. The increased demand for sales to customers in the aerospace & defense market is due to increased government spending. The collective decline in sales to customers in the consumer, electronics and industrial markets was primarily due to decreased demand for molded fiber packaging.

Gross Profit
Gross profit as a percentage of sales ("Gross Margin") increased to 27.2% for the year ended December 31, 2019, from 25.4% in 2018. As a percentage of sales, material and direct labor costs collectively decreased approximately 0.5%, while overhead decreased approximately 1.3%. The decrease in collective material and labor costs as a percentage of sales is primarily due to gains in manufacturing efficiencies resulting from continuous improvement initiatives and an improvement in the overall book of business. The decline in overhead as a percentage of sales was primarily due to leveraging fixed overhead costs against increased sales as well as targeted cost cuts.

Selling, General and Administrative Expenses
Selling, General and Administrative Expenses ("SG&A") increased approximately 5.8% to $29.3 million for the year ended December 31, 2019, from $27.7 million in 2018. As a percentage of sales, SG&A increased to 14.7% in 2019, from 14.5% in 2018. The increase in SG&A is primarily due to one extra month of operations at Dielectrics as well as compensation increases and new strategic management hires at the Company's plants.

Interest Income and Expense
The Company had net interest expense of approximately $0.7 million and $1.3 million for the years ended December 31, 2019 and 2018, respectively. The decrease in net interest expense was primarily due to lower debt levels.

Income Taxes
The Company recorded income tax expense, as a percentage of income before income tax expense, of 16.5% for the year ended December 31, 2019, compared to 22.2% for the same period in 2018. The decline in the Company's effective tax rate for the year ended December 31, 2019, was largely due to a significant increase in the amount of business tax credits earned in its federal and state 2018 tax returns due, in part, to qualifying research expenses at Dielectrics.

The Company notes the potential for volatility in its effective tax rate, as any windfall or shortfall tax benefits related to its share-based compensation plans will be recorded directly into income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows
Net cash provided by operations for the year ended December 31, 2020, was approximately $25.0 million and was primarily a result of net income generated of approximately $13.4 million, depreciation and amortization of approximately $8.3 million, loss on sale of fixed assets of approximately $0.5 million, share-based compensation of approximately $1.8 million, an increase in deferred taxes of approximately $0.1 million, a decrease in accounts receivable of approximately $2.2 million primarily due to lower sales in the last two months of 2020 as compared to 2019, a decrease in refundable income taxes of approximately $0.3 million and an increase in other long-term liabilities of approximately $1.1 million due primarily to the deferral of employer Social Security tax payments in connection with the CARES Act. These cash inflows and adjustments to income were partially offset by an increase in inventory of approximately $0.4 million, an increase in prepaid expenses of approximately $0.3 million, an increase in other assets of approximately $0.1 million, a decrease in accounts payable and accrued expenses of approximately $1.2 million due to the timing of vendor payments in the ordinary course of business and reductions in accrued compensation and a decrease in deferred revenue of approximately $0.7 million.

Net cash used in investing activities during the year ended December 31, 2020, was approximately $4.3 million and was primarily the result of additions of manufacturing machinery and equipment and various building improvements across the Company.

Net cash used for financing activities was approximately $0.3 million for the year ended December 31, 2020, resulting from payments of statutory withholding for stock options exercised and restricted stock units vested of approximately $0.8 million, partially offset by net proceeds received upon stock options exercises of approximately $0.5 million.

Outstanding and Available Debt
As of December 31, 2020, under the Company's Restated Credit Agreement (as described below), the Company had (i) outstanding $0.7 million in standby letters of credit, drawable as a financial guarantee on worker's compensation insurance policies and (ii) no other amounts outstanding.

On February 1, 2018, the Company, as the borrower, entered into an unsecured $70 million Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") with certain of the Company's subsidiaries (the "Subsidiary Guarantors") and Bank of America, N.A., in its capacity as the initial lender, Administrative Agent, Swingline Lender and L/C Issuer, and certain other lenders from time to time party thereto. The Amended and Restated Credit Agreement amended and restated the Company's prior credit agreement.

On December 31, 2020, the Company, as the borrower, and Bank of America, N.A., as administrative agent and sole lender, entered into a First Amendment (the "First Amendment") to the Company's Amended and Restated Credit Agreement, dated February 1, 2018 (as amended, the "Restated Credit Agreement").

The First Amendment amended the Restated Credit Agreement by (i) extending the scheduled maturity date from February 1, 2023, to December 31, 2025, and (ii) creating procedures and guidelines for establishing a successor benchmark rate if LIBOR ceases to be available during the term of the revolving credit facility. The Restated Credit Agreement called 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. The First Amendment calls for interest of LIBOR plus a margin that ranges from 1.25% to 1.75% or, at the discretion of the Company, the bank's prime rate plus a margin that ranges from zero to 0.25%. In both cases the applicable margin remains dependent upon Company performance. The First Amendment also added certain representations and covenants concerning compliance by the Company with legal requirements.

The credit facilities under the Restated Credit Agreement consist of a $20 million unsecured term loan to the Company and an unsecured revolving credit facility, under which the Company may borrow up to $50 million. The proceeds of the Restated Credit Agreement may be used for general corporate purposes, as well as permitted acquisitions. The Company's obligations under the Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

Under the Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. As of December 31, 2020, the applicable interest rate was approximately 1.15%, and the Company was in compliance with all covenants under the Restated Credit Agreement.

Derivative Financial Instruments
The Company used interest-rate-related derivative instruments to manage its exposure related to changes in interest rates on certain of its variable-rate debt instruments. The Company does not enter into derivative instruments for any purpose other than cash flow hedging. Derivative financial instruments expose the Company to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, creating credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, in these circumstances the Company is not exposed to the counterparty's credit risk. The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with carefully selected major financial institutions based upon their credit profile. Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates.

The Company assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company's debt obligations exposed the Company to variability in interest payments due to changes in interest rates. The Company believed that it was prudent to limit the variability of a portion of its interest payments. To meet this objective, in connection with the Amended and Restated Credit Agreement, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap modified the Company's interest rate exposure by converting the term loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan. The notional amount was $11,428,568 at December 31, 2020. The fair value of the swap as of December 31, 2020, was approximately $(465) thousand and is included in other liabilities. Changes in the fair value and net cash settlement amounts related to the swap are recorded in other expense and resulted in expense of approximately $366 thousand and $388 thousand during the years ended December 31, 2020 and 2019, respectively.

As the Company has paid the remaining balance of the term loan in its entirety, there is no longer underlying debt to hedge against with the swap. The changes in the fair value of the swap will continue to be accounted for as a financial instrument until the sooner of the time that the Company elects to cancel it or until its maturity.

Future Liquidity
The Company requires cash to pay its operating expenses, to purchase capital equipment and to service its contractual obligations. The Company's principal sources of funds are its operations and its amended and restated credit facility. The Company generated cash of approximately $25.0 million in operations during the year ended December 31, 2020; however, the Company cannot guarantee that its operations will generate cash in future periods. The Company's longer-term liquidity is contingent upon future operating performance and draws on the revolving credit facility are possible. Further, the continued economic uncertainty resulting from the COVID-19 pandemic could affect the Company's long-term ability to access the public markets and obtain necessary capital in order to properly capitalize and continue operations.

Throughout fiscal 2021, the Company plans to continue to add capacity to enhance operating efficiencies in its manufacturing plants. The Company may consider additional acquisitions of companies, technologies or products that are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash expected to be generated from operations, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through the next 12 months.

The Company may also require additional capital in the future to fund capital expenditures, acquisitions or other investments. These capital requirements could be substantial. The Company anticipates that any future expansion of its business will be financed through existing resources, cash flow from operations, the Company's revolving credit facility or other new financing. The Company cannot guarantee that it will be able to meet existing financial covenants or obtain other new financing on favorable terms, if at all. The Company's liquidity will be impacted to the extent additional stock repurchases are made under the Company's stock repurchase program.

Stock Repurchase Program

The Company accounts for treasury stock under the cost method, using the first-in, first-out flow assumption, and includes treasury stock as a component of stockholders' equity. On June 16, 2015, the Company announced that its Board of Directors authorized the repurchase of up to $10.0 million of the Company's outstanding common stock. Under the program, the Company is authorized to repurchase shares through Rule 10b5-1 plans, open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. The stock repurchase program will end upon the earlier of the date on which the plan is terminated by the Board or when all authorized repurchases are completed. The timing and amount of stock repurchases, if any, will be determined based upon our evaluation of market conditions and other factors. The stock repurchase program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the program. There were no share repurchases during the years ended December 31, 2020, 2019, and 2018. At December 31, 2020, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

ACCOUNTING ESTIMATES

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. The Company evaluates its estimates, including those listed below, on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances, including current and anticipated worldwide economic conditions, both in general and specifically in relation to the packaging and component product industries, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements included in this Report beginning on page 18. 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 when a customer obtains control of a promised good or service. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for promised goods or services. The Company recognizes revenue in accordance with the core principles of ASC 606 which include (1) identifying the contract with a customer, (2) identifying separate performance obligations within the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations and (5) recognizing revenue. The Company recognizes all but an immaterial portion of its product sales upon shipment. The Company recognizes revenue from the sale of tooling and machinery primarily upon customer acceptance, with the exception of certain tooling where control does not transfer to the customer, resulting in revenue being recognized over the estimated time for which parts are produced with the use of each respective tool. The Company recognizes revenue from engineering services, which are primarily product development services, as the services are performed or as otherwise determined based on the substance of the agreement. The Company recognizes revenue from bill and hold transactions at the time the specified goods are complete and available to the customer. In the ordinary course of business, the Company accepts sales returns from customers for defective goods, such amounts being immaterial. Although only applicable to an insignificant number of transactions, the Company has elected to exclude sales taxes from the transaction price. The Company has elected to account for shipping and handling activities for which the Company is responsible under the terms and conditions of the sale not as performance obligations but rather as fulfillment costs. These activities are required to fulfill the Company's promise to transfer the good and are expensed when revenue is recognized.

Goodwill

Goodwill is tested for impairment annually and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company consists of a single reporting unit. The Company last performed "step 1" of the goodwill impairment test as of December 31, 2018. In testing goodwill for impairment at December 31, 2018, the Company primarily utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

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

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

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

- Selection of guideline public companies which are similar in size and market capitalization to each other and to the Company.

As of December 31, 2018, based on our calculations under the above-noted approach, the fair value of the reporting unit significantly exceeded the carrying value of the reporting unit. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. If our actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

The Company's annual impairment testing date is December 31. The Company performed a qualitative assessment ("step 0") as of December 31, 2020 and 2019, and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company is not required to proceed to a "step 1" impairment assessment. Factors considered included the 2018 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

Recent Accounting Pronouncements

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Market risk represents the risk of changes in value of a financial instrument caused by fluctuations in interest rates, foreign exchange rates and equity prices. At December 31, 2020, the Company's cash and cash equivalents consisted of bank accounts in U.S. dollars, and their valuation would not be affected by market risk. Interest under the Company's credit facility with Bank of America, N.A. calls for interest of LIBOR plus a margin that ranges from 1.25% to 1.75% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from 0.25% to zero. Therefore, future operations could be affected by interest rate changes. As of December 31, 2020, the applicable interest rate was approximately 1.15%. The Company uses interest-rate-related derivative instruments to manage its exposure related to changes in interest rates. In connection with this credit facility, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap modified the Company's interest rate exposure by converting the term loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
UFP Technologies, Inc.

Opinion on the financial statements

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, 2020, the Company's cash and cash equivalents consisted of bank accounts in U.S. dollars, and their valuation would not be affected by market risk. Interest under the Company's credit facility with Bank of America, N.A. calls for interest of LIBOR plus a margin that ranges from 1.25% to 1.75% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from 0.25% to zero. Therefore, future operations could be affected by interest rate changes. As of December 31, 2020, the applicable interest rate was approximately 1.15%. The Company uses interest-rate-related derivative instruments to manage its exposure related to changes in interest rates. In connection with this credit facility, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap modified the Company's interest rate exposure by converting the term loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

Grant Thornton LLP

GRANT THORNTON LLP
We have served as the Company's auditor since 2005.
Boston, Massachusetts
March 12, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
UFP Technologies, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of UFP Technologies (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2020, and our report dated March 12, 2021 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting (“Management’s Report”). Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and limitations of internal control over financial reporting

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

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

Grant Thornton LLP

GRANT THORNTON LLP
Boston, Massachusetts
March 12, 2021

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	DECEMBER 31 2020	2019
Current assets:		
Cash and cash equivalents	$ 24,234	$ 3,743
Receivables, net	26,428	28,648
Inventories	18,642	18,276
Prepaid expenses	2,560	2,304
Refundable income taxes	-	279
Total current assets	**71,864**	**53,250**
Property, plant and equipment	118,388	116,089
Less accumulated depreciation and amortization	(64,633)	(59,350)
Net property, plant and equipment	53,755	56,739
Goodwill	51,838	51,838
Intangible assets, net	19,718	20,975
Non-qualified deferred compensation plan	3,724	2,775
Finance lease right of use assets	100	-
Operating lease right of use assets	2,052	3,034
Other assets	153	147
Total assets	**$ 203,204**	**$ 188,758**

LIABILITIES AND STOCKHOLDERS' EQUITY	2020	2019
Current liabilities:		
Accounts payable	$ 4,121	$ 4,577
Accrued expenses	7,944	8,483
Deferred revenue	1,887	2,574
Finance lease liabilities	15	-
Operating lease liabilities	1,154	1,150
Income taxes payable	16	-
Total current liabilities	**15,137**	**16,784**
Deferred income taxes	5,057	4,921
Non-qualified deferred compensation plan	3,810	2,788
Finance lease liabilities	86	-
Operating lease liabilities	950	1,940
Other liabilities	1,271	334
Total liabilities	**26,311**	**26,767**
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value, 20,000,000 shares authorized; 7,529,625 and 7,500,066 shares issued and outstanding, respectively at December 31, 2020; and 7,475,768 and 7,446,209 shares issued and outstanding, respectively, at December 31, 2019	75	74
Additional paid-in capital	32,484	30,952
Retained earnings	144,921	131,552
Treasury stock at cost, 29,559 shares at December 31, 2020 and 2019	(587)	(587)
Total stockholders' equity	**176,893**	**161,991**
Total liabilities and stockholders' equity	**$ 203,204**	**$ 188,758**

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

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Years Ended December 31		
	2020	**2019**	**2018**
Net sales	$ 179,373	$ 198,381	$ 190,455
Cost of sales	134,689	144,422	142,147
Gross profit	**44,684**	**53,959**	**48,308**
Selling, general and administrative expenses	27,493	29,251	27,654
Acquisition costs	-	-	1,089
Loss (gain) on disposal of property, plant and equipment	459	-	(47)
Operating Income	**16,732**	**24,708**	**19,612**
Interest income	-	-	47
Interest expense	(83)	(674)	(1,320)
Other (expense) income	(366)	(388)	64
Income before income tax provision	**16,283**	**23,646**	**18,403**
Income tax expense	2,914	3,896	4,092
Net income	**$ 13,369**	**$ 19,750**	**$ 14,311**
Net income per common share outstanding:			
Basic	$ 1.79	$ 2.66	$ 1.95
Diluted	$ 1.77	$ 2.63	$ 1.93
Weighted average common shares outstanding:			
Basic	7,484	7,424	7,347
Diluted	7,568	7,516	7,430

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2020, 2019 and 2018

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
Balance at December 31, 2017	**7,280**	**$ 73**	**$ 26,664**	**$ 97,562**	**30**	**$ (587)**	**$ 123,712**
Share-based compensation	31	-	1,212	-	-	-	1,212
Exercise of stock options	79	1	1,269	-	-	-	1,270
Net share settlement of restricted stock units	(5)	-	(144)	-	-	-	(144)
Excess tax benefits on share-based compensation - adjustment	-	-	167	-	-	-	167
ASC 606 adjustments	-	-	-	(71)	-	-	(71)
Net income	-	-	-	14,311	-	-	14,311
Balance at December 31, 2018	**7,385**	**$ 74**	**$ 29,168**	**$ 111,802**	**30**	**$ (587)**	**$ 140,457**
Share-based compensation	29	-	1,591	-	-	-	1,591
Exercise of stock options	45	-	705	-	-	-	705
Net share settlement of restricted stock units	(13)	-	(512)	-	-	-	(512)
Net income	-	-	-	19,750	-	-	19,750
Balance at December 31, 2019	**7,446**	**$ 74**	**$ 30,952**	**$ 131,552**	**30**	**$ (587)**	**$ 161,991**
Share-based compensation	43	1	1,806	-	-	-	1,807
Exercise of stock options	26	-	474	-	-	-	474
Net share settlement of restricted stock units	(15)	-	(748)	-	-	-	(748)
Net income	-	-	-	13,369	-	-	13,369
Balance at December 31, 2020	**7,500**	**$ 75**	**$ 32,484**	**$ 144,921**	**30**	**$ (587)**	**$ 176,893**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net income from consolidated operations	$ 13,369	$ 19,750	$ 14,311
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,268	8,172	7,831
Loss (gain) on sales of property, plant and equipment	459	-	(47)
Share-based compensation	1,807	1,591	1,212
Interest expense on finance leases	2	-	-
Deferred income taxes	136	792	1,881
Changes in operating assets and liabilities:			
Receivables, net	2,220	(327)	(2,556)
Inventories	(366)	1,300	(2,295)
Prepaid expenses	(256)	(98)	(249)
Refundable income taxes	295	2,006	(1,268)
Other assets	(73)	110	(76)
Accounts payable	(681)	(2,472)	1,113
Accrued expenses	(539)	25	1,472
Deferred revenue	(687)	67	35
Non-qualified deferred compensation plan and other liabilities	1,083	313	(44)
Net cash provided by operating activities	**25,037**	**31,229**	**21,320**
Cash flows from investing activities:			
Additions to property, plant and equipment	(4,368)	(5,778)	(5,428)
Acquisition of Dielectrics, net of cash acquired	-	-	(76,978)
Proceeds from sale of property, plant and equipment	107	4	77
Net cash used in investing activities	**(4,261)**	**(5,774)**	**(82,329)**
Cash flows from financing activities:			
Proceeds from advances on revolving line of credit	5,500	-	36,000
Payments on revolving line of credit	(5,500)	(8,000)	(28,000
Proceeds from the issuance of long-term debt	-	-	20,000
Principal repayment of long-term debt	-	(17,143)	(2,857)
Principal payments on finance lease obligations	(11)	-	-
Proceeds from the exercise of stock options	474	705	1,270
Payment of statutory withholding for restricted stock units vested	(748)	(512)	(144)
Net cash (used in) provided by financing activities	**(285)**	**(24,950)**	**26,269**
Net change in cash and cash equivalents	20,491	505	(34,740)
Cash and cash equivalents at beginning of year	3,743	3,238	37,978
Cash and cash equivalents at end of year	**$ 24,234**	**$ 3,743**	**$ 3,238**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

UFP Technologies, Inc. ("the Company") is an innovative designer and custom manufacturer of components, subassemblies, products and packaging utilizing highly specialized foams, films and plastics primarily for the medical market. The Company manufactures its products by converting raw materials using laminating, molding, radio frequency and impulse welding and fabricating manufacturing techniques. The Company is diversified by also providing highly engineered products and components to customers in the aerospace and defense, automotive, consumer, electronics and industrial markets. The Company consists of a single operating and reportable segment.

(a) Principles of Consolidation

The consolidated financial statements include the accounts and results of operations of UFP Technologies, Inc., its wholly owned subsidiaries, Moulded Fibre Technology, Inc., Simco Industries, Inc. Dielectrics, Inc. and UFP Realty LLC, and its wholly owned subsidiaries, UFP MA LLC, UFP CO LLC, UFP FL LLC, UFP TX LLC, UFP MI LLC and UFP IA LLC. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has evaluated all subsequent events through the date of this filing.

(b) Use of Estimates

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

(c) Fair Value Measurement

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

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

(d) Fair Value of Financial Instruments

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

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, the Company did not have any cash equivalents.

The Company maintains its cash in bank deposit accounts that at times exceed federally insured limits. The Company periodically reviews the financial stability of institutions holding its accounts and does not believe it is exposed to any significant custodial credit risk on cash. The amounts contained within the Company's main operating accounts at Bank of America and TD Bank at December 31, 2020, exceed the federal depository insurance limit by approximately $26.1 million.

(f) Accounts Receivable

The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially uncollectable. Determining adequate reserves for accounts receivable requires management's judgment. Conditions impacting the realizability of the Company's receivables could cause actual asset write-offs to be materially different than the reserved balances as of December 31, 2020.

(g) Inventories

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

The Company periodically reviews the realizability of its inventory for potential excess or obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2020.

(h) Property, Plant and Equipment

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

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

Leasehold improvements	Shorter of estimated useful life or remaining lease term
Buildings and improvements	20-40 years
Machinery & Equipment	7-15 years
Furniture, fixtures, computers & software	3-7 years

Property, plant and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. No events or changes in circumstances arose during the year ended December 31, 2020, that required management to perform an impairment analysis.

(i) Goodwill

Goodwill is tested for impairment annually and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company consists of a single reporting unit. The Company last performed "step 1" of the goodwill impairment test as of December 31, 2018. In testing goodwill for impairment at December 31, 2018, the Company primarily utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

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

Selection of guideline public companies which are similar in size and market capitalization to each other and to the Company.

As of December 31, 2018, based on calculations under the above-noted approach, the fair value of the reporting unit significantly exceeded the carrying value of the reporting unit. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. If the Company's actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

The Company's annual impairment testing date is December 31. The Company performed a qualitative assessment ("step 0") as of December 31, 2020 and 2019, and determined that it was more likely than not that the fair value of its reporting unit exceeded its carrying amount. As a result, the Company was not required to proceed to a "step 1" impairment assessment. Factors considered included the 2018 step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

Approximately $48.3 million of goodwill is deductible or has been fully deducted for tax purposes.

(j) Intangible Assets

Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from 5 to 20 years. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their carrying values may not be recoverable. No events or changes in circumstances arose during the year ended December 31, 2020, that required management to perform an impairment analysis.

(k) Revenue Recognition

The Company recognizes revenue when a customer obtains control of a promised good or service. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for promised goods or services. The Company recognizes revenue in accordance with the core principles of ASC 606 which include (1) identifying the contract with a customer, (2) identifying separate performance obligations within the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations and (5) recognizing revenue. The Company recognizes all but an immaterial portion of its product sales upon shipment. The Company recognizes revenue from the sale of tooling and machinery primarily upon customer acceptance, with the exception of certain tooling where control does not transfer to the customer, resulting in revenue being recognized over the estimated time for which parts are produced with the use of each respective tool. The Company recognizes revenue from engineering services, which are primarily product development services, as the services are performed or as otherwise determined based on the substance of the agreement. The Company recognizes revenue from bill and hold transactions at the time the specified goods are complete and available to the customer. In the ordinary course of business, the Company accepts sales returns from customers for defective goods, such amounts being immaterial. Although only applicable to an insignificant number of transactions, the Company has elected to exclude sales taxes from the transaction price. The Company has elected to account for shipping and handling activities for which the Company is responsible under the terms and conditions of the sale not as performance obligations but rather as fulfillment costs. These activities are required to fulfill the Company's promise to transfer the good and are expensed when revenue is recognized.

(l) Share-Based Compensation

When accounting for equity instruments exchanged for employee services, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Forfeitures are expensed as they occur. The Company issues share-based awards through several plans that are described in detail below.

Incentive Plan

In June 2003, the Company formally adopted the 2003 Incentive Plan (the "Plan"). As amended and restated to date, the Plan is intended to benefit the Company by offering equity-based and other incentives to certain of the Company's executives and employees who are in a position to contribute to the long-term success and growth of the Company, thereby encouraging the continuance of their involvement with the Company and/or its subsidiaries.

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

Through December 31, 2020, 1,275,035 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 88,412 shares are being reserved for outstanding grants of RSUs and other share-based compensation that are subject to various performance and time-vesting contingencies. The Company has also granted awards in the form of stock options under this Plan. Through December 31, 2020, 185,000 options have been granted, and 10,000 options are outstanding. At December 31, 2020, 800,834 shares or options are available for future issuance in the 2003 Incentive Plan.

Director Plan

Effective July 15, 1998, the Company adopted the 1998 Director Plan, which was amended and renamed on June 3, 2009, as the 2009 Non-Employee Director Stock Incentive Plan (the "Director Plan"). The Director Plan was amended on March 7, 2013, to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options. The Director Plan, as amended, provides for the issuance of stock options and other equity-based securities to non-employee members of the Company's board of directors. The maximum contractual term of options issued under this plan is 10 years.

Through December 31, 2020, 379,918 options have been granted, and 84,513 options are outstanding. For the year ended December 31, 2020, 4,776 RSUs are being reserved for outstanding grants of RSUs, and 59,980 shares remained available to be issued under the Director Plan.

(m) Shipping and Handling Costs

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

(n) 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 carry forwards. Deferred tax expense or 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.

(o) Segments and Related Information

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

(p) Treasury Stock

The Company accounts for treasury stock under the cost method, using the first-in, first out flow assumption, and includes treasury stock as a component of stockholders' equity. The Company did not repurchase any shares of common stock during the years ended December 31, 2020, 2019 and 2018.

(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 $8.2 million, $8.8 million and $10.5 million were expensed in the years ended December 31, 2020, 2019 and 2018, respectively.

Recent Accounting Pronouncements

There are no newly issued accounting pronouncements that the Company expects to have a material effect on the financial statements.

Revisions

Certain revisions have been made to the December 31, 2019 Condensed Consolidated Balance Sheet to conform to the current year presentation relating to a reclassification of long-term operating lease liabilities to current operating lease liabilities. The reclassification resulted in an increase of current operating lease liabilities of $476 thousand and a decrease of long-term operating lease liabilities of $476 thousand. These revisions had no impact on previously reported earnings, net income or cash flows and are deemed immaterial to the previously issued financial statements.

(2) Revenue Recognition

Disaggregated Revenue

The following table presents the Company's revenue disaggregated by the major types of goods and services sold to our customers (in thousands) (See Note 17 for further information regarding net sales by market):

	Years Ended December 31		
	2020	2019	2018
Net sales of:			
Products	$ 172,299	$ 193,016	$ 183,186
Tooling and Machinery	2,787	2,730	4,302
Engineering services	4,287	2,635	2,967
Total net sales	**$ 179,373**	**$ 198,381**	**$ 190,455**

Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. When invoicing occurs prior to revenue recognition, the Company has deferred revenue (contract liabilities) included within "deferred revenue" on the condensed consolidated balance sheet.

The following table presents opening and closing balances of contract liabilities for the years ended December 31, 2020 and 2019 (in thousands):

	Contract Liabilities Years Ended December 31	
	2020	2019
Deferred revenue - beginning of period	$ 2,574	$ 2,507
Increases due to consideration received from customers	2,673	3,216
Revenue recognized	(3,360)	(3,149)
Deferred revenue - end of period	**$ 1,887**	**$ 2,574**

Revenue recognized during the years ended December 31, 2020 and 2019, from amounts included in deferred revenue at the beginning of the period were approximately $1.7 million and $1.7 million, respectively.

When invoicing occurs after revenue recognition, the Company has unbilled receivables (contract assets) included within "receivables" on the condensed consolidated balance sheet.

The following table presents opening and closing balances of contract assets for the years ended December 31, 2020 and 2019 (in thousands):

	Contract Assets Years Ended December 31	
	2020	2019
Unbilled Receivables - beginning of period	$ 72	$ 65
Increases due to revenue recognized - not invoiced to customers	3,147	831
Decrease due to customer invoicing	(2,948)	(824)
Unbilled Receivables - end of period	**$ 271**	**$ 72**

(3) Supplemental Cash Flow Information

	Years Ended December 31		
	2020	2019	2018
Cash paid for:		(in thousands)	
Interest	$ 71	$ 664	$ 1,303
Income taxes, net of refunds	$ 2,481	$ 1,255	$ 3,463
Non-cash investing and financing activities:			
Capital additions accrued but not yet paid	$ 225	$ 213	$ 218

(4) Receivables and Allowance for Credit Losses

Receivables consist of the following (in thousands):

	December 31	
	2020	**2019**
Accounts receivable—trade	$ 26,912	$ 29,134
Less allowance for doubtful receivables	(484)	(486)
Receivables, net	**$ 26,428**	**$ 28,648**

Effective January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (ASC 326,) which is required to be applied by means of a cumulative-effect adjustment to the opening retained earnings balance as of the adoption date. This ASU replaces the incurred loss impairment model with an expected credit loss impairment model for financial instruments, including trade receivables and contract assets. The amendment requires entities to consider forward-looking information to estimate expected credit losses, resulting in earlier recognition of losses for receivables that are current or not yet due, which were not considered under the previous accounting guidance. There was no impact to the Company's opening retained earnings or its consolidated balance sheet upon adoption and as a result, the balances presented for December 31, 2019, which were derived under the incurred loss model are comparable to December 31, 2020.

The Company is exposed to credit losses primarily through sales of products and services. The Company's expected loss allowance methodology for accounts receivable is developed using historical collection experience, current and future economic and market conditions, and a review of the current status of customers' trade accounts receivables. Due to the short-term nature of such receivables, the estimate of the amount of accounts receivable that may not be collected is based on aging of the accounts receivable balances. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default due, in part, to their financial condition. The Company's monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macro-economic conditions. Balances are written off when determined to be uncollectible. Estimates based on an assessment of anticipated payment and all other historical, current and future information that is reasonably available are used to determine the allowance.

The following table provides a roll-forward of the allowance for credit losses that is deducted from accounts receivable to present the net amount expected to be collected for the years ended December 30, 2020 and 2019 (in thousands):

	Allowance for Credit Losses Years Ended December 31	
	2020	**2019**
Allowance - beginning of period	$ 486	$ 564
Provision for (reversal of) expected credit losses	13	(52)
Amounts written off against the allowance, net of recoveries	(15)	(26)
Allowance - end of period	**$ 484**	**$ 486**

(5) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2020	**2019**
Raw materials	$ $12,229	$ 10,540
Work in process	1,991	2,279
Finished goods	4,422	5,457
Total Inventory	**$ 18,642**	**$ 18,276**

(6) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2020 and 2019 are as follows (in thousands):

December 31, 2020	Trade Name & Brand	Non-Compete	Customer List	Total
Estimated useful life	10 years	5 years	20 years	
Gross amount	$ 367	$ 462	$ 22,555	$ 23,384
Accumulated amortization	(107)	(270)	(3,289)	$ (3,666)
Net balance	**$ 260**	**$ 192**	**$ 19,266**	**$ 19,718**

December 31, 2019	Trade Name & Brand	Non-Compete	Customer List	Total
Estimated useful life	10 years	5 years	20 years	
Gross amount	$ 367	$ 462	$ 22,555	$ 23,384
Accumulated amortization	(70)	(177)	(2,162)	$ (2,409)
Net balance	**$ 297**	**$ 285**	**$ 20,393**	**$ 20,975**

Amortization expense related to intangible assets was approximately $1.3 million, $1.3 million and $1.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. The estimated remaining amortization expense as of December 31, 2020, is as follows (in thousands):

2021	$ 1,257
2022	1,257
2023	1,172
2024	1,164
2025	1,164
Thereafter	13,704
Total	**$ 19,718**

(7) Property, Plant and Equipment

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

	December 31	
	2020	2019
Land and improvements	$ 3,191	$ 3,191
Buildings and improvements	36,017	35,502
Leasehold improvements	3,160	3,022
Machinery & equipment	67,880	66,438
Furniture, fixtures, computers & software	6,135	6,414
Construction in progress	2,005	1,522
	$ 118,388	**$ 116,089**

Depreciation and amortization expense of Property, Plant and Equipment for the years ended December 31, 2020, 2019 and 2018, were approximately $7.0 million, $6.9 million and $6.6 million, respectively.

(8) Indebtedness

On February 1, 2018, the Company, as the borrower, entered into an unsecured $70 million Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") with certain of the Company's subsidiaries (the "Subsidiary Guarantors") and Bank of America, N.A., in its capacity as the initial lender, Administrative Agent, Swingline Lender and L/C Issuer, and certain other lenders from time to time party thereto. The Amended and Restated Credit Agreement amended and restated the Company's prior credit agreement.

On December 31, 2020, the Company, as the borrower, and Bank of America, N.A., as administrative agent and sole lender, entered into a First Amendment (the "First Amendment") to the Company's Amended and Restated Credit Agreement, dated February 1, 2018 (as amended, the "Restated Credit Agreement").

The First Amendment amended the Restated Credit Agreement by (i) extending the scheduled maturity date from February 1, 2023, to December 31, 2025, and (ii) creating procedures and guidelines for establishing a successor benchmark rate if LIBOR ceases to be available during the term of the revolving credit facility. The Restated Credit Agreement called 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. The First Amendment calls for interest of LIBOR plus a margin that ranges from 1.25% to 1.75% or, at the discretion of the Company, the bank's prime rate plus a margin that ranges from zero to 0.25%. In both cases the applicable margin remains dependent upon Company performance. The First Amendment also added certain representations and covenants concerning compliance by the Company with legal requirements.

The credit facilities under the Restated Credit Agreement consist of a $20 million unsecured term loan to the Company and an unsecured revolving credit facility, under which the Company may borrow up to $50 million. The proceeds of the Restated Credit Agreement may be used for general corporate purposes, as well as permitted acquisitions. The Company's obligations under the Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

Under the Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. As of December 31, 2020, there were $0.7 million in standby letters of credit outstanding, drawable as a financial guarantee on worker's compensation insurance policies. As of December 31, 2020, there were no amounts outstanding, the applicable interest rate was approximately 1.15% and the Company was in compliance with all financial covenants under the Restated Credit Agreement.

Derivative Financial Instruments

The Company used interest-rate-related derivative instruments to manage its exposure related to changes in interest rates on certain of its variable-rate debt instruments. The Company does not enter into derivative instruments for any purpose other than cash flow hedging. Derivative financial instruments expose the Company to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, creating credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, in these circumstances the Company is not exposed to the counterparty's credit risk. The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with carefully selected major financial institutions based upon their credit profile. Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates.

The Company assesses interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company's debt obligations exposed the Company to variability in interest payments due to changes in interest rates. The Company believed that it was prudent to limit the variability of a portion of its interest payments. To meet this objective, in connection with the Amended and Restated Credit Agreement, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap modified the Company's interest rate exposure by converting the term loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan. The notional amount was $11,428,568 at December 31, 2020. The fair value of the swap as of December 31, 2020, was approximately $(465) thousand and is included in other liabilities. Changes in the fair value and net cash settlement amounts related to the swap are recorded in other expense and resulted in expense of approximately $366 thousand and $388 thousand during the years ended December 31, 2020 and 2019, respectively.

As the Company has paid the remaining balance of the term loan in its entirety, there is no longer underlying debt to hedge against with the swap. The changes in the fair value of the swap will continue to be accounted for as a financial instrument until the sooner of the time that the Company elects to cancel it or until its maturity.

(9) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2020	**2019**
Compensation	$ 2,443	$ 3,961
Benefits/self-insurance reserve	921	1,033
Paid time off	1,538	1,315
Short-term portion of deferred payroll tax	810	-
Other	2,232	2,174
	$ 7,944	**$ 8,483**

(10) Income Tax

The Company's income tax provision for the years ended December 31, 2020, 2019 and 2018 consists of the following (in thousands):

	Years Ended December 31		
	2020	**2019**	**2018**
Current:			
Federal	$ 2,223	$ 2,920	$ 1,772
State	555	184	439
	2,778	**3,104**	**2,211**
Deferred:			
Federal	(28)	485	1,917
State	164	307	(36)
	136	**792**	**1,881**
Total income tax provision	**$ 2,914**	**$ 3,896**	**$ 4,092**

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

	December 31	
	2020	**2019**
Deferred tax assets:		
Reserves	$ 351	$ 362
Inventory capitalization	550	396
Compensation programs	802	578
Equity-based compensation	524	403
Lease liability	567	795
Intangible assets	-	73
State tax credits, net of federal impact	123	274
Gross deferred tax assets	**2,917**	**2,881**
Valuation allowance	(64)	(136)
Net deferred tax assets	**$ 2,853**	**$ 2,745**
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	$ (4,527)	$ (4,877)
Goodwill	(2,795)	(2,008)
Right of use asset	(554)	(781)
Intangible assets	(34)	-
Total deferred tax liabilities	**(7,910)**	**(7,666)**
Net long-term deferred tax liabilities	**$ (5,057)**	**$ (4,921)**

The amounts recorded as deferred tax assets as of December 31, 2020 and 2019, represent the amount of tax benefits of existing deductible temporary differences or carryforwards that are more likely than not to be realized through the generation of sufficient future taxable income within the carryforward period. The Company has gross deferred tax assets of approximately $2.9 million at December 31, 2020, that it believes are more likely than not to be realized in the carryforward period. Management reviews the recoverability of deferred tax assets during each reporting period. The Company has provided a valuation allowance of approximately $64 thousand for deferred tax assets (net of federal tax benefit), primarily related to tax credits generated in its 2019 and 2018 Massachusetts state income tax return that are being carried forward to future periods. The Company is uncertain as to whether it will have sufficient future taxable income in Massachusetts to utilize the credits prior to their expiration date. The valuation allowance against the Company's deferred tax assets may require adjustments in the future based on changes in the mix of temporary difference, changes in tax laws, and operating performance.

The Company has approximately $156 thousand of tax credit carryforwards related to one state jurisdiction that expire between 2021 and 2034.

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 21% to income before income tax expense as follows:

	Years Ended December 31		
	2020	**2019**	**2018**
Computed "expected" tax rate	21.0%	21.0%	21.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	4.2	1.8	2.8
Meals and entertainment	0.1	0.2	0.2
Tax credits	(7.2)	(6.2)	(1.9)
Non-deductible ISO stock option expense	-	-	0.1
Unrecognized tax benefits	-	(0.7)	-
Excess tax benefits on equity awards	(1.2)	(0.7)	(1.3)
Excess compensation	0.8	0.6	0.8
Other	0.2	0.4	0.5
Change in valuation allowance	-	0.1	-
Effective tax rate	**17.9%**	**16.5%**	**22.2%**

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan which have been audited through 2004, income tax returns filed in Massachusetts which have been audited through 2007, income tax returns filed in Florida which have been audited through 2019, income tax returns filed in New Jersey which have been audited through 2012, and income tax returns in Colorado which have been audited through 2017. Certain tax credits in Iowa are currently being audited for the year 2018. Federal and state tax returns for the years 2016 through 2019 remain open to examination by the IRS and various state jurisdictions.

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

	December 31	
	2020	**2019**
Gross UTB balance at beginning of fiscal year	$ -	$ 150
Reductions for tax positions of prior years	-	(150)
Gross UTB balance at end of fiscal year	**$ -**	**$ -**

At December 31, 2018, all of the unrecognized tax benefits related to tax returns of a specific state jurisdiction that were under examination. In January, 2019 the Company came to an agreement with the state and in February, 2019 the Company received a check in the amount of $156,000 as settlement of the unrecognized tax benefits.

(11) Net Income Per Share

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

	Years Ended December 31		
	2020	**2019**	**2018**
Basic weighted average common shares outstanding during the year	7,484	7,424	7,347
Weighted average common equivalent shares due to stock options and restricted stock units	84	92	83
Diluted weighted average common shares outstanding during the year	**7,568**	**7,516**	**7,430**

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, 2020, 2019 and 2018, the number of stock awards excluded from the computation was 14,892, 16,536 and 10,344, respectively.

(12) Share-Based Compensation

Share-based compensation is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant). Share-based compensation is included in selling, general & administrative expenses as follows (in thousands):

	Years Ended December 31		
Share-based compensation related to:	**2020**	**2019**	**2018**
Common stock grants	$ 400	$ 400	$ 505
Stock option grants	232	151	149
Restricted Stock Unit awards	1,175	1,040	558
Total share-based compensation	$ 1,807	$ 1,591	$ 1,212

The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was approximately $734 thousand, $653 thousand and $544 thousand for the years ended December 31, 2020, 2019 and 2018, respectively.

Common stock grants

The compensation expense for common stock granted during the three-year period ended December 31, 2020, was determined based on the market price of the shares on the date of grant.

Stock option grants

The compensation expense for stock options granted during the three-year period ended December 31, 2020, was determined as the fair value of the options using the Black Scholes valuation model. The assumptions are noted as follows:

	Years Ended December 31		
	2020	**2019**	**2018**
Expected volatility	32.8%	28.9%	27.7%
Expected dividends	None	None	None
Risk-free interest rate	0.3%	2.3%	2.7%
Exercise price	$43.95	$38.61	$31.20
Expected term	6.1 years	6.0 years	6.0 years
Weighted-average grant date fair value	$ 14.10	$ 12.70	$ 10.15

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

The following is a summary of stock option activity for the year ended December 31, 2020:

	Shares Under Options	**Weighted Average Exercise Price (per share)**	**Weighted Average Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value (in thousands)**
Outstanding December 31, 2019	**105,614**	**$ 25.34**	-	-
Granted	14,892	43.95	-	-
Exercised	(25,993)	18.24	-	-
Outstanding December 31, 2020	**94,513**	**$ 30.22**	**6.03**	**$ 1,548**
Exercisable at December 31, 2020	**79,621**	**$ 27.66**	**5.39**	**$ 1,508**
Vested and expected to vest at December 31, 2020	**94,513**	**$ 30.22**	**6.03**	**$ 1,548**

During the years ended December 31, 2020, 2019 and 2018, the total intrinsic value of all options exercised (i.e., the difference between the market price and the price paid by the employees to exercise the options) was approximately $0.8 million, $1.0 million and $1.2 million, respectively, and the total amount of consideration received from the exercise of these options was approximately

$0.5 million, $0.7 million and $1.3 million, respectively. At its discretion, the Company allows option holders to surrender previously owned common stock in lieu of paying the exercise price and withholding taxes. During the years ended December 31, 2020, 2019 and 2018, no shares were surrendered for this purpose.

Restricted Stock Unit awards ("RSUs")
The Company grants RSUs to its directors, executive officers and employees. The stock unit awards are subject to various time-based vesting requirements, and certain portions of these awards are subject to performance criteria of the Company. Compensation expense on these awards is recorded based on the fair value of the award at the date of grant, which is equal to the Company's closing stock price, and is charged, to expense ratably during the service period. No compensation expense is taken on awards that do not become vested, and the amount of compensation expense recorded is adjusted based on management's determination of the probability that these awards will become vested.

The following table summarizes information about stock unit award activity during the year ended December 31, 2020:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2019	**113,866**	**$ 28.36**
Awarded	25,312	48.83
Shares vested	(34,485)	28.95
Forfeitures	(11,506)	35.49
Outstanding at December 31, 2020	**93,187**	**$ 35.03**

At the Company's discretion, RSU holders are given the option to net-share settle to cover the required minimum withholding tax, and the remaining amount is converted into the equivalent number of common shares. During the year ended December 31, 2020, 11,423 shares were redeemed for this purpose at an average market price of $49.91. During the years ended December 31, 2019 and 2018, 8,341 and 5,238 shares were redeemed for this purpose at an average market price of $33.69 and $27.60, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2020, vest (in thousands):

	Options	Restricted Stock Units	Total
2021	$ 93	$ 983	$ 1,076
2022	-	588	588
2023	-	262	262
2024	-	23	23
Total	**$ $93**	**$ 1,856**	**$ 1,949**

(13) Leases

The Company has operating and finance leases for offices, manufacturing plants, vehicles and certain office and manufacturing equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company accounts for each separate lease component of a contract and its associated non-lease components as a single lease component, thus causing all fixed payments to be capitalized. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage, are not included in the right of use ("ROU") assets or lease liabilities. These are expensed as incurred and recorded as variable lease expense. The Company determines if an arrangement is a lease at the inception of a contract. Operating and finance lease ROU assets and operating and finance lease liabilities are stated separately in the condensed consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset during the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the net present value of fixed lease payments over the lease term. The Company's lease term includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option. ROU assets are also adjusted for any deferred or accrued rent. As the Company's leases do not typically provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

	Year Ended December 31 ($ in thousands)	
	2020	**2019**
Lease cost:		
Finance lease cost:		
Amortization of right of use assets	$ 10	$ -
Interest on lease liabilities	2	-
Operating lease cost	1,207	1,222
Variable lease cost	215	219
Short-term lease cost	28	27
Total lease cost	**$ 1,462**	**$ 1,468**
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,212	$ 1,208
Financing cash flows from finance leases	11	-
ROU assets obtained in exchange for finance lease obligations	110	-
Weighted-average remaining lease term (years):		
Finance	**6.33**	**-**
Operating	**1.78**	**2.69**
Weighted-average discount rate:		
Finance	**2.26%**	**-**
Operating	**4.37%**	**4.45%**

The aggregate future lease payments for leases as of December 31, 2020 and 2019, were as follows (in thousands)::

	December 31, 2020		December 31, 2019
	Finance	**Operating**	**Operating**
2021	$ 17	$ 1,177	$ 1,173
2022	17	973	1,118
2023	17	38	957
2024	17	-	36
2025	17	-	-
Thereafter	23	-	-
Total lease payments	108	2,188	3,284
Less: interest	(7)	(84)	(194)
Present value of lease liabilities	**$ 101**	**$ 2,104**	**$ 3,090**

Rent expense amounted to approximately $1.3 million, $1.2 million and $1.2 million in 2020, 2019 and 2018, respectively.

(14) Commitments and Contingencies

(a) ***Leases*** – The Company has operating leases for certain facilities that expire through 2023. Certain of the leases contain escalation clauses that require payments of additional rent as well as increases in related operating costs. See Note 13 for details on lease commitments.

(b) ***Legal*** – From time to time, the Company may be a party to various suits, claims and complaints arising in the ordinary course of business. In the opinion of management of the Company, these suits, claims and complaints should not result in final judgments or settlements that, in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

(15) Employee Benefit Plans

The Company maintains a profit-sharing plan for eligible employees. Contributions to the Plan are made in the form of matching contributions to employee 401(k) deferrals, as well as discretionary profit-sharing amounts determined by the Board of Directors to be funded by March 15 following each fiscal year. Contributions to the Plan were approximately $0.9 million, $1.0 million and $1.1 million for the years 2020, 2019 and 2018, 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 $225 thousand per insured person, along with an aggregate stop loss determined by the number of participants.

The Company has an Executive, Non-qualified "Excess" Plan ("the Plan"), which is a deferred compensation plan available to certain executives. The Plan permits participants to defer receipt of part of their current compensation to a later date as part of their personal retirement or financial planning. Participants have an unsecured contractual commitment from the Company to pay amounts due under the Plan.

The compensation withheld from Plan participants, together with gains or losses determined by the participants' deferral elections, is reflected as a deferred compensation obligation to participants and is classified within the liabilities section in the accompanying balance sheets. At December 31, 2020 and 2019, the balance of the deferred compensation liability totaled approximately $3.8 million and $2.8 million, respectively. The related assets, which are held in the form of a Company-owned, variable life insurance policy that names the Company as the beneficiary, are classified within the other assets section of the accompanying balance sheets and are accounted for based on the underlying cash surrender values of the policies and totaled approximately $3.7 million and $2.8 million as of December 31, 2020 and 2019, respectively.

(16) Fair Value of Financial Instruments

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

Level 1 – Valued based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valued based on either directly or indirectly observable prices for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 – Valued based on management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table presents the fair value and hierarchy levels for financial assets that are measured at fair value on a recurring basis (in thousands):

Level 2	**December 21, 2020**	**December 31, 2019**
Liabilities:		
Derivative financial instruments	$ 465	$ 325

Derivative financial instruments consist of an interest rate swap for which fair value is determined through the use of a pricing model that utilizes verifiable inputs such as market interest rates that are observable at commonly quoted intervals for the full term of the swap agreement.

The Company has financial instruments, such as accounts receivable, accounts payable and accrued expenses, that 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 estimated borrowing rate currently available to the Company.

(17) Segment Data

The Company consists of a single operating and reportable segment.

Revenues from customers outside of the United States are not material. No customer comprised more than 10% of the Company's consolidated revenues for the years ended December 31, 2020, 2019 and 2018. At December 31, 2020 and 2019, one customer represented approximately 13.3% and 13.9% of gross accounts receivable, respectively. A vast majority of the Company's assets are located in the United States.

The Company's custom products are primarily sold to customers within the Medical, Consumer, Automotive, Aerospace & Defense, Industrial and Electronics markets. Sales by market for the years ended December 31, 2020, 2019 and 2018, are as follows (in thousands):

	2020		2019		2018	
Market	**Net Sales**	**%**	**Net Sales**	**%**	**Net Sales**	**%**
Medical	$ 120,206	67.0%	$ 128,915	65.0%	$ 110,282	57.9%
Consumer	18,263	10.2%	17,669	8.9%	24,989	13.1%
Automotive	14,607	8.1%	20,004	10.1%	20,022	10.5%
Aerospace & Defense	12,624	7.0%	13,778	6.9%	13,130	6.9%
Industrial	7,601	4.2%	9,607	4.8%	10,579	5.6%
Electronics	6,072	3.4%	8,408	4.2%	11,453	6.0%
Net Sales	**$ 179,373**	**100.0%**	**$ 198,381**	**100.0%**	**$ 190,455**	**100.0%**

(18) Quarterly Financial Information (unaudited)

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

2020	**Q1**	**Q2**	**Q3**	**Q4**
Net sales	$ 48,277	$ 42,644	$ 43,299	$ 45,153
Gross profit	12,823	9,949	10,528	11,384
Net income	3,891	2,318	2,988	4,172
Basic net income per share	0.52	0.31	0.40	0.56
Diluted net income per share	0.52	0.31	0.40	0.55
2019	**Q1**	**Q2**	**Q3**	**Q4**
Net sales	$ 47,328	$ 51,399	$ 49,394	$ $50,260
Gross profit	12,497	14,371	13,321	13,770
Net income	3,734	4,598	5,641	5,777
Basic net income per share	0.50	0.62	0.76	0.78
Diluted net income per share	0.50	0.62	0.75	0.77

(19) Acquisition

On February 1, 2018, the Company purchased 100% of the outstanding shares of common stock of Dielectrics Inc., pursuant to a stock purchase agreement and related agreements, for an aggregate purchase price of $80 million in cash. The purchase price was subject to adjustment based upon Dielectrics' working capital at closing. An additional $250 thousand of consideration was paid by the Company as a result of the final working capital adjustment. A portion of the purchase price is being held in escrow to indemnify the Company against certain claims, losses and liabilities. The Purchase Agreement contains customary representations, warranties and covenants customary for transactions of this type.

Founded in 1954 and based in Chicopee, Massachusetts, Dielectrics is a leader in the design, development and manufacture of medical devices using thermoplastic materials. They primarily use radio frequency and impulse welding to design and manufacture solutions for the medical industry. The Company has leased the Chicopee location from a realty trust owned by the selling shareholder and affiliates. The lease is for five years with two five-year renewal options.

The following table summarizes the allocation of consideration paid to the acquisition date fair value of the assets acquired and liabilities assumed based on management's estimates of fair value (in thousands):

Consideration Paid:		
Cash paid at closing	$	80,000
Working capital adjustment		250
Cash from Dielectrics		(3,272)
Total consideration	**$**	**76,978**
Purchase Price Allocation:		
Accounts receivable	$	4,384
Inventory		4,418
Other current assets		122
Property, plant and equipment		4,600
Customer list		22,555
Non-compete		462
Trade name and brand		367
Goodwill		44,516
Total identifiable assets	**$**	**81,424**
Accounts payable		(1,325)
Accrued expenses		(946)
Deferred revenue		(2,175)
Net assets acquired	**$**	**76,978**

Acquisition costs associated with the transaction were approximately $1.1 million and were charged to expense in the year ended December 31, 2018. These costs were primarily for investment banking and legal fees and are reflected on the face of the income statement.

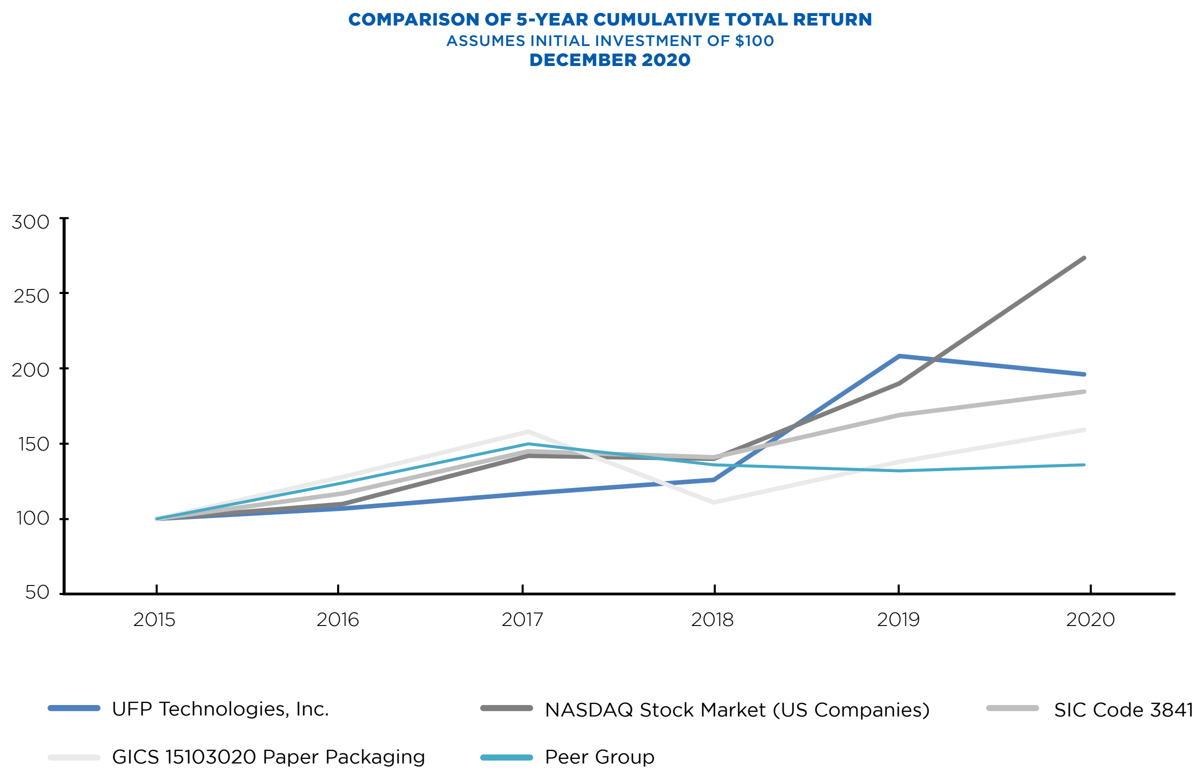
The following table contains an unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2018, as if the Dielectrics acquisition had occurred at the beginning of the period (in thousands):

	Years Ended December 31	
	2018	
	(Unaudited)	
Sales	$	193,510
Operating income	$	19,464
Net income	$	14,110
Earnings per share:		
Basic	$	1.92
Diluted	$	1.90

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

STOCK PERFORMANCE GRAPH

The following graph compares cumulative total stockholder return on our Common Stock since December 31, 2015, with the cumulative total return of the (1) NASDAQ Stock Market (US Companies), (2) SIC Code 3841 Surgical and Medical Instruments and Apparatus, (3) GICS 15103020 Paper Packaging and (4) the Company's peer group, as determined by Radford, a national compensation consulting company engaged by our Compensation Committee in 2018 to perform a comprehensive comparative market study of the compensation programs offered to peer company executives and directors, as described in our Proxy Statement for our 2021 Annual Meeting of Stockholders. This graph assumes the investment of $100 on December 31, 2015, in our Common Stock, and for comparison the companies that comprise each of (1) the NASDAQ Stock Market, (2) SIC Code 3841 Surgical and Medical Instruments and Apparatus, (3) GICS 15103020 Paper Packaging and (4) the Company's peer group, as described above, and that all dividends were reinvested. Measurement points are the last trading day of each respective fiscal year.



Some of the statements contained in this Report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Management and representatives of the Company also may from time to time make forward-looking statements. These statements are subject to known and unknown risks, uncertainties, and other factors, which may cause our or our industry's actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about the Company's prospects; statements about the potential further impact the novel coronavirus ("COVID-19") pandemic may have on the Company's business, financial condition and results of operations, including with respect to the different markets in which the Company participates, the demand for its products, the well-being and availability of the Company's employees, the continuing operation of the Company's locations, delayed payments by the Company's customers and the potential for reduced or canceled orders, the Company's efforts to address the pandemic, including regarding the safety of its employees, the maintenance of its facilities and the sufficiency of the Company's supply chain, inventory, liquidity and capital resources, including increased costs in connection with such efforts, the impact of the pandemic on the businesses of the Company's suppliers and customers, and the overall impact the pandemic may have on the Company's financial results in 2021; statements about the Company's acquisition strategies and opportunities and the Company's growth potential and strategies for growth; expectations regarding customer demand; expectations regarding the Company's liquidity and capital resources, including the sufficiency of its cash reserves and the availability of borrowing capacity to fund operations and/or potential future acquisitions; anticipated revenues and the timing of such revenues; expectations regarding the potential impact of the proposed phase out of LIBOR by the end of 2021; expectations about shifting the Company's book of business to higher-margin, longer-run opportunities; anticipated trends and potential advantages in the different markets in which the Company competes, including the medical, aerospace and defense, automotive, consumer, electronics, and industrial markets, and the Company's plans to expand in certain of its markets; statements regarding anticipated advantages the Company expects to realize from its investments and capital expenditures; statements regarding anticipated advantages to improvements and alterations at the Company's existing plants; expectations regarding the Company's manufacturing capacity, operating efficiencies, and new production equipment; statements about new product offerings and program launches; statements about the Company's participation and growth in multiple markets; statements about the Company's business opportunities; and any indication that the Company may be able to sustain or increase its sales, earnings or earnings per share, or its sales, earnings or earnings per share growth rates.

Investors are cautioned that such forward-looking statements involve risks and uncertainties that could adversely affect the Company's business and prospects, and otherwise cause actual results to differ materially from those anticipated by such forward-looking statements, or otherwise, including without limitation: the severity and duration of the COVID-19 pandemic and its impact on the markets in which the Company participates, including its impact on the Company's customers, suppliers and employees, as well as the U.S. and worldwide economies; the timing, scope and effect of further governmental, regulatory, fiscal, monetary and public health responses to the COVID-19 pandemic; risks and uncertainties associated with the COVID-19 pandemic and its impact on the Company's business, financial condition and results of operations, including risks relating to decreased, including substantially decreased, demand for the Company's products; risks relating to the potential closure of any of the Company's facilities or the unavailability of key personnel or other employees; risks that the Company's inventory, cash reserves, liquidity or capital resources may be insufficient; risks relating to delayed payments by our customers and the potential for reduced or canceled orders; risks relating to the increased costs associated with the Company's efforts to respond to the pandemic; risks associated with the identification of suitable acquisition candidates and the successful, efficient execution of acquisition transactions, the integration of any such acquisition candidates, the value of those acquisitions to our customers and shareholders, and the financing of such acquisitions; risks related to our indebtedness and compliance with covenants contained in our financing arrangements, and whether any available financing may be sufficient to address our needs; risks related to the proposed phase out of LIBOR by the end of 2021; risks associated with efforts to shift the Company's book of business to higher-margin, longer-run opportunities; risks associated with the Company's entry into and growth in certain markets; risks and uncertainties associated with seeking and implementing manufacturing efficiencies and implementing new production equipment; risks and uncertainties associated with growth of the Company's business and increases to sales, earnings and earnings per share; and risks associated with new product and program launches. Accordingly, actual results may differ materially.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," and similar expressions intended to identify forward-looking statements. Our actual results could be different from the results described in or anticipated by our forward-looking statements due to the inherent uncertainty of estimates, forecasts, and projections, and may be materially better or worse than anticipated. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements represent our current beliefs, estimates and assumptions and are only as of the date of this Report. We expressly disclaim any duty to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this Report, in order to reflect changes in circumstances or expectations, or the occurrence of unanticipated events, except to the extent required by applicable securities laws. All of our forward-looking statements are qualified by these cautionary statements and those set forth in our filings with the Securities and Exchange Commission, including those set forth under "Risk Factors" in Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020. We caution you that these risks are not exhaustive. We operate in a continually changing business environment and new risks emerge from time to time.

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

ANNUAL MEETING
The annual meeting of stockholders will be held virtually at 10:00 a.m., on June 9, 2021. Details will be posted to www.ufpt.com.

COMMON STOCK LISTING
UFP Technologies' common stock is traded on NASDAQ under the symbol UFPT.

STOCKHOLDER SERVICES
Stockholders whose shares are held in street names often experience delays in receiving company communications forwarded through brokerage firms or financial institutions. Any shareholder or other interested party who wishes to receive information directly should call or write the Company. Please specify your preference for regular or electronic mail:

UFP Technologies, Inc.
Attn: Shareholder Services
100 Hale Street
Newburyport, MA 01950 USA

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

FORM 10-K REPORT
A copy of the Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Company, or on the Company's website at www.ufpt.com/investors/filings.html.

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Newburyport, MA 01950 USA
(978) 352-2200 phone

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CORPORATE COUNSELS
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Boston, MA 02108

Howard & Howard
450 West Fourth Street
Royal Oak, MI 48067-2557

ABOUT THIS REPORT
The objective of this report is to provide existing and prospective shareholders a tool to understand our financial results, what we do as a company and where we are headed in the future. We aim to achieve these goals with clarity, simplicity and efficiency. We welcome your comments and suggestions.

COMPANY WEBSITE
In the interest of providing timely, cost-effective information to shareholders, press releases, SEC filings and other investor-oriented matters are available on the Company's website at www.ufpt.com/investors/filings.html.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

R. Jeffrey Bailly **do**
Chairman, CEO and President

Daniel C. Croteau **d**
Chief Executive Officer
Corza Medical

Cynthia L. Feldmann **d**
Former Partner and
National Chair
Medical Device Industry
KPMG LLP

Ronald J. Lataille **o**
Sr. Vice President, Treasurer,
and Chief Financial Officer

Christopher P. Litterio, Esq. **o**
General Counsel, Secretary
& Sr. Vice President of
Human Resources

Marc D. Kozin **d**
Professional Board Member

Thomas Oberdorf **d**
Chairman & CEO
SIRVA, Inc.

Robert W. Pierce, Jr. **d**
Chairman, CEO,
and Co-Owner
Pierce Aluminum Co.

Lucia Luce Quinn **d**
Board Consultant
Genuity Science

Mitchell C. Rock **o**
Sr. Vice President
and General Manager, Medical

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

d Directors **o Officers**

OPERATING PRINCIPLES

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

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

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

QUALITY
We are dedicated to the never-ending process of continuously improving our quality of products, service, communications, relationships and commitments.

SIMPLIFICATION
We seek to simplify our business process through the constant reexamination of our methods and elimination of all non-value-added activities.

ENTREPRENEURSHIP
We strive to create an environment that encourages autonomous decision-making and a sense of ownership at all levels of the company.

PROFIT
Although profit is not the sole reason for our existence, it is the lifeblood that allows us to exist.

UFP TECHNOLOGIES
100 Hale Street | Newburyport, MA 01950 | (978) 352-2200 | ufpt.com