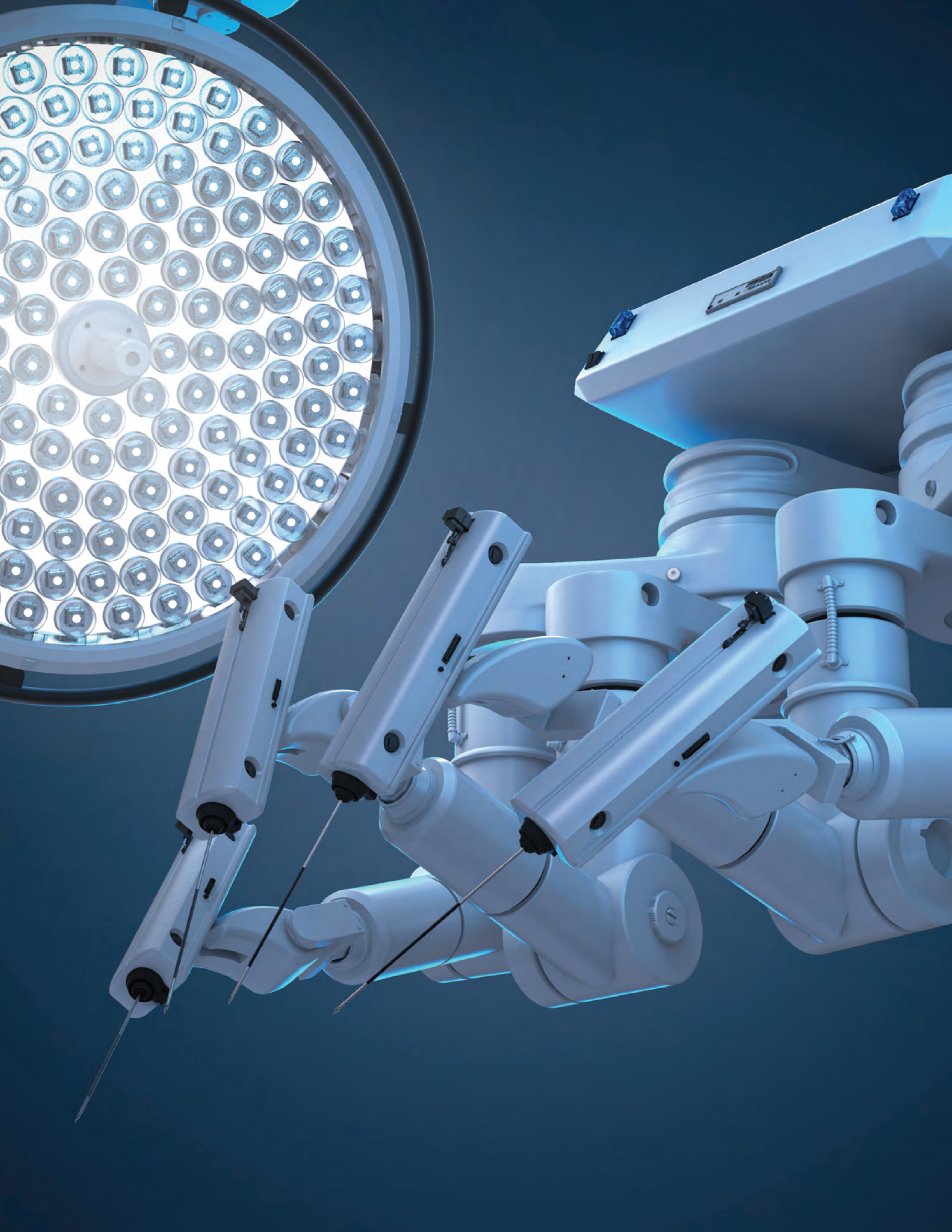
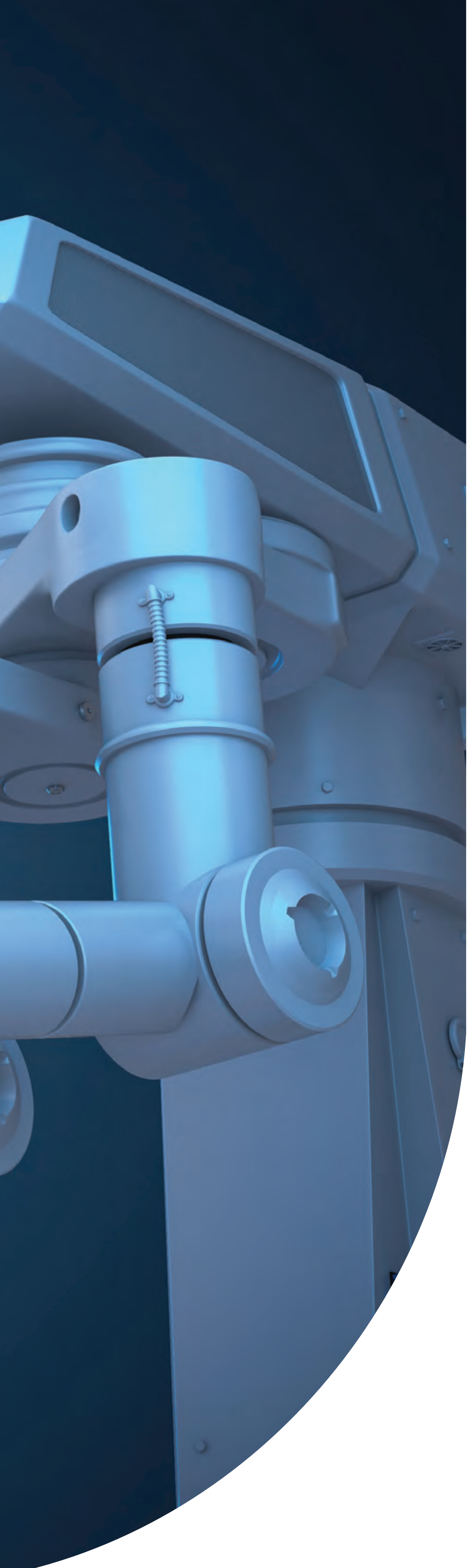
STRONG AND GROWING

UFP TECHNOLOGIES

2021 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.

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“It was a year of solid progress on many fronts,

DEAR FELLOW SHAREHOLDER,

For UFP Technologies, 2021 was an exciting and successful year. We managed through the disruptions of the Covid-19 pandemic and experienced solid top- and bottom-line growth. Sales increased 15%, operating income grew 27%, and earnings per share grew 18%. Sales by our MedTech group, by far the largest part of our business, grew 10.2%. We also enjoyed robust growth in our Advanced Components business, led by a 25.7% sales increase in the aerospace & defense market.

SIGNIFICANT EXPANSION OF OUR MEDICAL CAPABILITIES

In addition, we made great progress on our strategic initiatives to enhance our capabilities and increase our value to customers. In a six-month span we completed three major medical acquisitions that will strengthen our competitive position for years to come. In October, we acquired Contech Medical, a global leader in class III medical device packaging, primarily for catheters and guidewires. In December, we acquired DAS Medical, a Dominican Republic-based medical device contract manufacturer specializing in single-use surgical equipment covers, robotic draping systems, and fluid control pouches. Then, in March 2022, we acquired Advant Medical, a developer and manufacturer of Class I, II, and III medical devices and packaging located in Galway, Ireland, and Costa Rica.

Each acquisition expands our capabilities in fast-growing, high-margin segments of the medical market, such as robotic surgery. Each is an excellent strategic and cultural fit that offers powerful synergies. Each brings us new customer relationships, product development opportunities, and proven talent. And each helps us achieve our strategic goal of expanding our manufacturing footprint into locations critical to our customers. You can learn more about these important acquisitions inside.

OVERCOMING PANDEMIC CHALLENGES TO MEET CUSTOMER NEEDS

In 2021, we achieved our strong results despite the continuing challenges of the Covid-19 pandemic—rising raw material costs, limited direct labor availability, supply chain disruptions, and more. These issues cut into our gross margins and bottom-line results, particularly in the latter half of the year. I am very proud of the way our team responded to meet our commitments and keep our customers supplied with the products they depend on.

Direct labor shortages—compounded by a tight labor market—required many of our people to work substantial overtime, or quickly pivot to new roles and responsibilities. They worked tirelessly through Covid-related absences and raw *with each initiative guided by one basic principle: increasing our value to customers.”*

material-related production shutdowns, constantly navigating challenging conditions to meet customer needs. I thank our UFP team members for their extraordinary effort and dedication.

Our supplier partners really stepped up too. They played a key role by helping us manage allocation issues and qualify alternate materials when specified materials were not available. And our customers showed great flexibility and loyalty in a year filled with many unforeseen challenges. I send them all my sincere thanks and appreciation as well.

Unfortunately, we expect supply chain issues to continue through at least the first half of 2022. As I write, we have a sizable backlog of open orders waiting for these issues to be resolved. Once that happens, we can ramp up production to catch up with customer demand and accelerate our growth. Until then, we will continue working to manage the impact on our business. This includes passing on strategic price increases to mitigate rising material costs.

CUSTOMER SUCCESS IS OUR SUCCESS

It was a year of solid progress on many fronts, with each initiative guided by one basic principle: increasing our value to customers. That is the consistent goal behind everything we do. Customers know we're always trying to find new ways to help them succeed, because their success and ours are inextricably linked. In the following pages, we will describe how this customer-focused strategy is shaping our business and our future.

When the pandemic finally ends, we expect a great deal of pent-up demand to be unleashed. With our new facilities and capabilities, we are in a great position to take advantage. We believe our newly acquired entities will bring significant benefits to our current and prospective customers. And with our strong balance sheet, we can pursue other exciting acquisition opportunities that add even more value. For all these reasons, I am very optimistic about UFP's prospects for continued growth, and I thank you for your support.

Sincerely,

R. Jeffrey Bailly
Chairman and CEO

FOUR NEW STRATEGIC LOCATIONS TO MEET EVOLVING CUSTOMER DEMAND

In recent years, we have seen many price-sensitive, legacy medical programs migrate to competitors in low-cost countries. This is business we would obviously like to retain. Our customers want that too, so they can avoid the risk of changing suppliers.

So, for mature products in the later stages of their life cycles, customers asked us to explore options for low-cost-country manufacturing. These efforts came to fruition in 2021 and early 2022 with the acquisitions of Advant Medical, Contech Medical, and DAS Medical. The next step is the opening of our own new facility in Tijuana, Mexico, which is expected to be operational in the second half of 2022. Advant is headquartered in Galway, Ireland, and has operations in Costa Rica and an outsourced manufacturing partner in Mexico. DAS brings a manufacturing location in the Dominican Republic. Contech also adds partner manufacturing in Costa Rica.

Taken together, these initiatives will allow us to retain more legacy programs. Beyond that, the three acquisitions will help us penetrate further into high-value segments like minimally invasive surgery and orthopedics. And help make us a global leader in certain niche markets, such as catheterization packaging and robotic surgery drapes. All in all, it's a big step forward for our medical business.

WORKING CLOSELY WITH CUSTOMERS TO DEVELOP THE NEXT GENERATION OF PRODUCTS

Product development is an increasingly vital part of our business. Over time, we have been steadily building our development capabilities, and we continued this process in 2021 by expanding our Newburyport lab space, and adding new clean rooms, next-generation equipment, and engineering talent.

Our development business allows us to collaborate with customers from the very beginning of their product life cycles. Customers come to us with their ideas, and we apply our engineering, materials, and production expertise to help develop these concepts into successful products. We play a role in every stage of a new product's evolution—material selection, prototypes, testing, tooling, quality systems design, equipment manufacturing, supply chain management, and more. As a result, we are well positioned when the customer is ready to choose a manufacturing partner.

Our product development skills have helped us secure many highly profitable, long-running programs. It's proven to be a powerful engine for growing our business organically, and a great way to provide even more services to our customers. We expect this trend to accelerate in the coming years, and plan to direct more talent and resources to help customers bring their product ideas to life.

CRITICAL WORK FOR CUSTOMERS AND PATIENTS — AND A LASER FOCUS ON QUALITY

Our entire team knows that thousands of patients every day depend on our products to support successful outcomes and improve their health and quality of life. And so, we take the quality and precision of our work very, very seriously. When we talk to team members about it, we ask them to imagine a close friend or family member undergoing a medical procedure that involves one of our products. Simply stated, that product must be flawless in every way.

In our FDA-approved plants, we have developed advanced systems to ensure the highest levels of quality. Many of the world's leading medical device manufacturers have come to rely on our unique engineering and production skills. And we are very proud to call them our customers. But we never forget the ultimate "customer"—the patients hoping for successful procedures, minimal complications, and speedy recoveries. Their health and safety is always our primary concern, and the driving force behind our uncompromising approach to quality.

HOW OUR HIGH-LEVEL MEDICAL CAPABILITIES BENEFIT CUSTOMERS IN EVERY MARKET

To improve our focus and value to customers, UFP Technologies is organized in two groups: MedTech and Advanced Components. The former is devoted to the healthcare industry, while the latter works with our other target markets. We have a clear strategic goal to continue growing our medical business. But our Advanced Components markets remain very important as well. And we know these customers have benefited from the skills and infrastructure we've worked so hard to develop for medical programs.

Here's why. It takes great engineering and manufacturing skills to have a medical program qualified by the FDA. To compete successfully in this space, we've had to continually enhance our talent, knowledge base, facilities, and quality systems. This has led us to develop many specialized precision manufacturing processes for medical customers, which we have then leveraged to enhance solutions for customers in other industries. Whether our solutions are used in surgical procedures or in vehicles, aircraft, or military equipment, they are all created with the same discipline and commitment, often utilizing the same materials and very similar equipment. As a result, our success in medical markets has had a very positive impact on customers in other markets too.

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

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, 2020 to December 31, 2021:

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

Fiscal Year Ended December 31, 2021	High	Low
First Quarter	$ 55.52	$ 44.02
Second Quarter	59.68	49.02
Third Quarter	71.17	56.11
Fourth Quarter	75.34	59.00

NUMBER OF STOCKHOLDERS

As of March 11, 2022, there were 87 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 2021 or 2020. 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, 2021, 2020, and 2019. 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, 2021, 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. Despite the continuing impact of the COVID-19 pandemic, conditions related to the pandemic generally appear to be improving as sales for the Company for the year ended December 31, 2021 increased 15.0% to $206.3 million from $179.4 million for the year ended December 31, 2020. Gross margin decreased slightly to 24.8% for the year ended December 31, 2021, from 24.9% in 2020, primarily due to significant increases in raw material, labor and certain overhead costs. However, operating income and net income for the year ended December 31, 2021 increased by 26.8% and 18.8%, respectively.

IMPACT OF COVID-19 ON OUR BUSINESS

Through much of 2021, COVID-19 continued to spread in areas in which our products are designed, manufactured, distributed, or sold. The continued spread of COVID-19 and the response to it negatively impacted operating conditions for our business in 2021. 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 is uncertain.

To stall the spread of COVID-19 during calendar year 2020, 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. Since then, most federal, state, and local mandates or executive orders have been lifted; however, it is uncertain whether similar mandates or executive orders will be implemented in the future and what impact they will have on us, our customers, consumers, employees, suppliers, and other third parties with whom we do business. 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, so we continue to follow practical safety procedures and continue to monitor that status of the COVID-19 pandemic, vaccination rates, and mutations of COVID-19.

The COVID-19 pandemic continues to pose risks to our operations. The global supply chain disruption that has resulted from the COVID-19 pandemic has resulted in delays in our receipt of raw materials and components we need to meet our anticipated manufacturing and production schedules. The relative difficulty in sourcing raw materials and components for our manufacturing operations has also resulted in increased costs. Our labor costs have increased due to a general labor shortage and related wage increases and incentives to attract and retain employees. Our maintenance costs have also increased due to higher costs of supplies, our efforts to create a safe work environment for our employees, and our continued enhanced cleaning and sterilization protocols.

Although the conditions related to the COVID-19 pandemic generally appear to be improving, due to the speed with which the COVID-19 situation continues to evolve, its global nature, the range of governmental and community responses thereto, and our business line and geographic diversity, the further impact of COVID-19 on our business and operations remains highly uncertain and 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, 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 in accordance with local mandates and procured and distributed personal protective equipment; implemented health checks and visitor protocols and restricted travel.

The full extent to which the COVID-19 pandemic impacts our business and operations is unknown and will depend on the severity, location, and duration of the effects and spread of COVID-19, the effectiveness of the vaccine programs and the other actions undertaken by national, regional and local governments and health officials to contain the virus or treat its effects (including the ultimate efficacy of vaccine programs on new variants of the virus), the length of the worldwide supply chain disruption and increased costs and how quickly and to what extent economic conditions improve and operating conditions resume. As certain restrictions are lifted in various geographical locations throughout the U.S., we will continue to monitor and respond to the impacts that the COVID-19 pandemic has on our business and operations. We have a strong liquidity position, solid balance sheet, access to capital, and the ability to scale operations 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 deferred social security payments of approximately $1.6 million through December 31, 2020. Approximately $715 thousand of this amount was paid in December 2021, and the remaining balance of approximately $905 thousand is required to be paid by December 31, 2022. 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:

	2021	**2020**	**2019**
Net sales	100.0%	100.0%	100.0%
Cost of sales	75.2%	75.1%	72.8%
Gross profit	**24.8%**	**24.9%**	**27.2%**
Selling, general and administrative expenses	14.3%	15.3%	14.7%
(Gain) loss on sale of fixed assets	0.0%	0.3%	0.0%
Acquisition costs	0.2%	0.0%	0.0%
Operating income	**10.3%**	**9.3%**	**12.5%**
Total other expense	0.0%	0.2%	0.5%
Income before taxes	**10.3%**	**9.1%**	**12.0%**
Income tax expense	2.6%	1.6%	2.0%
Net income from consolidated operations	**7.7%**	**7.5%**	**10.0%**

2021 COMPARED TO 2020

Sales

Net sales increased 15.0% to $206.3 million for the year ended December 31, 2021, from net sales of $179.4 million in 2020. The increase in sales was primarily due to increases in sales to customers in the Medical, Consumer, Electronics, Industrial, Automotive, and Aerospace & Defense markets of 10.2%, 42.2%, 28.3%, 13.6%, 6.8%, and 25.7% respectively. The increase in sales to the Medical market was partially attributable to sales from the two fourth quarter acquisitions, Contech and DAS Medical, of $4.5 million and $1.4 million, respectively. Organically, sales to the medical market grew 5.3% in 2021.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") decreased slightly to 24.8% for the year ended December 31, 2021, from 24.9% in 2020. As a percentage of sales, material and direct labor costs collectively increased approximately 2.3%, while overhead decreased approximately 2.2%. The increase in collective material and labor costs as a percentage of sales was primarily due to inflationary increases in raw material costs as well as labor rate increases and staffing challenges. The decrease in overhead as a percentage of sales was primarily due to fixed overhead costs measured against increased sales.

Selling, General, and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") increased approximately 7.2% to $29.5 million for the year ended December 31, 2021, from $27.5 million in 2020. As a percentage of sales, SG&A decreased to 14.3%, from 15.3% in 2020. The decrease in SG&A as a percentage of sales was primarily due to relatively fixed SG&A expenses measure against increased sales. The increase in SG&A was primarily due to increased compensation programs and travel and entertainment as well as additional SG&A from the fourth quarter acquisitions of Contech and DAS.

Acquisition Costs

The Company incurred approximately $430 thousand in costs associated with acquisition-related activities, which were charged to expense for the year ended December 31, 2021. These costs were primarily for legal and valuation services and are reflected on the face of the income statement.

Interest Income and Expense

The Company had net interest expense of approximately $39 thousand and $83 thousand for the years ended December 31, 2021 and 2020, respectively. The decrease in net interest expense was primarily due to interest received from the federal government related to income tax refunds.

Other Income and Expense

Other income was approximately $26 thousand, and other expense was approximately $366 thousand for years ended December 31, 2021 and 2020, respectively. The changes in other expense are primarily generated by changes in the fair value of the swap liability, which is driven by anticipated future interest rate changes and a declining nominal amount, offset by net cash settlement amounts related to the swap.

Income Taxes

The Company recorded income tax expense, as a percentage of income before income tax expense, of 25.1% for the year ended December 31, 2021 compared to 17.9% for the same period in 2020 The increase in the effective tax rate for the current period was largely due to lower discrete income tax benefits from share-based compensation and amended tax returns in the year ended December 31, 2021 compared to the same period of 2020. 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.

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 "Recent Developments—COVID-19" 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.

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, 2021 was approximately $14.3 million and was primarily a result of net income generated of approximately $15.9 million, depreciation and amortization of approximately $8.4 million, share-based compensation of approximately $2.4 million, a decrease in refundable income taxes of approximately $0.9 million, an increase in accounts payable and accrued expenses of approximately $1.1 million primarily due to increased compensation related liabilities, and an increase in deferred revenue of approximately $2.3 million primarily due to increased customer deposits on tooling and machinery.

These cash inflows and adjustments to income were partially offset by a decrease in deferred taxes of approximately $1.8 million, an increase in accounts receivable of approximately $7.8 million due primarily to higher sales in the last two months of 2021 as compared to 2020, an increase in inventory of approximately $4.5 million due to higher stocking levels for future demand, an increase in prepaid expenses of approximately $0.5 million, an increase in other assets of approximately $0.7 million, and a decrease in other liabilities of approximately $1.4 million.

Net cash used in investing activities during the year ended December 31, 2021 was approximately $101.5 million and was primarily the result of the acquisitions of DAS Medical and Contech Medical, as well as additions of manufacturing machinery and equipment and various building improvements across the Company.

Net cash provided by financing activities was approximately $74.0 million for the year ended December 31, 2021, representing borrowings under our credit facility to fund acquisitions of $75.0 million and net proceeds received upon stock options exercises of approximately $0.2 million, partially offset by payments of statutory withholding for stock options exercised and restricted stock units vested of approximately $0.9 million and debt issuance costs of $0.2 million.

Outstanding and Available Debt

On December 22, 2021, the Company, as the borrower, entered into a secured $130 million Second Amended and Restated Credit Agreement (the "Second 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 amends and restates the Company's prior credit agreement, originally dated as of February 1, 2018.

The credit facilities under the Second Amended and Restated Credit Agreement consist of a $40 million secured term loan to the Company and a secured revolving credit facility, under which the Company may borrow up to $90 million. The Amended and Restated Credit Facilities mature on December 21, 2026. The proceeds of the Amended and Restated Credit Agreement may be used for general corporate purposes, including funding the acquisition of DAS Medical, as well as certain other permitted acquisitions. The Company's obligations under the Second Amended and Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

The Second Amended and Restated Credit Agreement calls for interest determined by the Bloomberg Short-Term Bank Yield Index rate ("BSBY") plus a margin that ranges from 1.25% to 2.0% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from .25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the Second Amended and 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 Second Amended and Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. At December 31, 2021, the Company had approximately $75 million in borrowings outstanding under the Second Amended and Restated Credit Agreement, which were used as partial consideration for the DAS Medical acquisition, and also had approximately $0.7 million in standby letters of credit outstanding, drawable as a financial guarantee on worker's compensation insurance policies.

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 first 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 previous 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 $8,571,424 at December 31, 2021. The fair value of the swap as of December 31, 2021 was approximately $(176) 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 income of approximately $24 thousand and other expense of approximately $366 thousand during the years ended December 31, 2021 and 2020, respectively.

As the Company has paid the remaining balance of the term loan that was associated with the swap 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, purchase capital equipment, and to service its contractual obligations. The Company's principal sources of funds are its operations and its Second Amended and Restated Credit Agreement. The Company generated cash of approximately $14.3 million in operations during the year ended December 31, 2021; 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 the availability of draws on the revolving credit facility under the Second Amended and Restated Credit Agreement. 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 2022, 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, 2021, 2020, and 2019. At December 31, 2021, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

CRITICAL 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 Item 8 of this Report. The Company believes the following critical accounting policies necessitated that significant judgments and estimates be used in the preparation of its consolidated financial statements.

The Company has reviewed these policies with its Audit Committee.

Valuation of Intangible Assets and Contingent Consideration Liability

We base the fair value of identifiable intangible assets acquired in a business combination on detailed valuations that use information and assumptions provided by management, which consider management's best estimates of inputs and assumptions that a market participant would use. Further, for those arrangements that involve potential future contingent consideration, we record on the date of acquisition a liability equal to the fair value of the estimated additional consideration we may be obligated to pay in the future. We re-measure this liability each reporting period and record changes in the fair value through a separate line item within our consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration liability can result from changes in discount rates, periods, timing, and amount of projected revenue or timing or likelihood of achieving regulatory, revenue, or commercialization-based milestones. The use of alternative valuation assumptions, including estimated revenue projections, growth rates, cash flows, discount rates, useful life, or probability of achieving clinical, regulatory, or revenue-based milestones could result in different purchase price allocations and recognized amortization expense and contingent consideration expense or benefit in current and future periods.

We review intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or adjustment to the remaining useful life. If we determine it is more likely than not that the asset is impaired based on our qualitative assessment of impairment indicators, we test the intangible asset for recoverability. If the carrying value of the intangible asset is determined not recoverable, we will write the carrying value down to fair value in the period the impairment is identified. We calculate fair value of our intangible assets as the present value of estimated future cash flows we expect to generate from the asset using a risk-adjusted discount rate. The use of alternative assumptions, including estimated cash flows, discount rates, and alternative estimated remaining useful lives could result in different calculations of impairment.

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.

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, 2021, the Company's cash and cash equivalents consisted primarily 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 BSBY plus a margin that ranges from 1.25% to 2.00% 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, 2021, the applicable interest rate was approximately 1.58%.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
UFP Technologies, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of UFP Technologies, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 14, 2022 expressed an unqualified opinion.

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 regarding 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

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Preliminary valuation of acquired intangible assets and contingent consideration liabilities

As described further in note 2 to the financial statements, the Company completed the acquisition of Contech Medical on October 12, 2021 for total consideration of $14.5 million in cash and contingent consideration. The identified intangible assets acquired include customer contract and relationships of $3 million and intellectual property of $2.2 million and the value of the contingent consideration liability was $4.5 million. The Company also acquired DAS Medical on December 22, 2021 for total consideration of $100.7 million in cash and contingent consideration. The identified intangible assets acquired include customer contracts and relationships of $36.7 million, intellectual property of $2.4 million, non-compete agreements of $4.7 million and value of the contingent consideration liability was $5.2 million. We identified preliminary valuation of the intangible assets acquired and contingent consideration liabilities for the Contech Medical and DAS Medical acquisitions as a critical audit matter.

The principal considerations for our determination that preliminary valuation of the intangible assets acquired and contingent consideration liabilities for the Contech Medical and DAS Medical acquisitions is a critical audit matter are that the determination of the preliminary fair values of such assets and liabilities required management to make significant estimates and assumptions related to forecasted revenues and operating margins as well as the discount rates used. This required a high degree of auditor judgement and an increased extent of effort, including professionals with specialized skill and knowledge, in auditing these assumptions made by management.

Our audit procedures related to the preliminary valuation of the intangible assets acquired and contingent consideration liabilities for the Contech Medical and DAS Medical acquisitions included the following, among others:

- We tested the design and operating effectiveness of controls relating to the determination of preliminary fair values of the intangible assets and contingent consideration, including controls over the development of assumptions related to revenue growth rates, operating margins and discount rates, as well as the controls around the appropriateness of the valuation models used.
- We evaluated the valuation methodologies and discount rates utilized by management with the assistance of our valuation professionals with specialized skill and knowledge.
- We tested the forecasted revenues and operating margins by assessing the reasonableness of management's forecasts compared to historical results and forecasted market and industry trends.

Grant Thornton LLP

GRANT THORNTON LLP
We have served as the Company's auditor since 2005.
Boston, Massachusetts
March 14, 2022

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, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2021, 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, 2021, 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, 2021, and our report dated March 14, 2022 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 ("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.

Our audit of, and opinion on, the Company's internal control over financial reporting does not include the internal controls over financial reporting of Contech Medical, Inc, and DAS Medical Holdings, LLC, wholly-owned subsidiaries, whose financial statements reflect combined total assets and revenues constituting 34.5 and 2.9 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021. As indicated in Management's Report, Contech Medical, Inc and DAS Medical Holdings, LLC were both acquired during 2021. Management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Contech Medical, Inc and DAS Medical Holdings, LLC.

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 14, 2022

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31	
ASSETS	**2021**	**2020**
Current assets:		
Cash and cash equivalents	$ $11,117	$ $24,234
Receivables, net	39,384	26,428
Inventories	33,436	18,642
Prepaid expenses	3,383	2,560
Total current assets	**87,320**	**71,864**
Property, plant and equipment	126,837	118,388
Less accumulated depreciation and amortization	(70,268)	(64,633)
Net property, plant and equipment	56,569	53,755
Goodwill	107,905	51,838
Intangible assets, net	67,585	19,718
Non-qualified deferred compensation plan	4,327	3,724
Finance lease right of use assets	271	100
Operating lease right of use assets	9,053	2,052
Other assets	1,102	153
Total assets	**$ 334,132**	**$ 203,204**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,611	$ 4,121
Accrued expenses	12,700	7,944
Deferred revenue	4,247	1,887
Finance lease liabilities	58	15
Operating lease liabilities	2,181	1,154
Income taxes payable	909	16
Current installments of long-term debt	4,000	-
Total current liabilities	**34,706**	**15,137**
Long-term debt, excluding current installments	71,000	-
Deferred income taxes	3,263	5,057
Non-qualified deferred compensation plan	4,337	3,810
Finance lease liabilities	215	86
Operating lease liabilities	6,903	950
Other liabilities	19,262	1,271
Total liabilities	**139,686**	**26,311**
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value, 20,000,000 shares authorized; 7,564,645 and 7,535,086 shares issued and outstanding, respectively at December 31, 2021; and 7,529,625 and 7,500,066 shares issued and outstanding, respectively, at December 31, 2020	75	75
Additional paid-in capital	34,151	32,484
Retained earnings	160,807	144,921
Treasury stock at cost, 29,559 shares at December 31, 2021 and 2020	(587)	(587)
Total stockholders' equity	**194,446**	**176,893**
Total liabilities and stockholders' equity	**$ 334,132**	**$ 203,204**

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		
	2021	**2020**	**2019**
Net sales	$ 206,320	$ 179,373	$ 198,381
Cost of sales	155,206	134,689	144,422
Gross profit	**51,114**	**44,684**	**53,959**
Selling, general and administrative expenses	29,480	27,493	29,251
Acquisition costs	430	-	-
(Gain) loss on disposal of property, plant and equipment	(14)	459	-
Operating Income	**21,218**	**16,732**	**24,708**
Interest income	49	-	-
Interest expense	(88)	(83)	(674)
Other income (expense)	26	(366)	(388)
Income before income tax provision	**21,205**	**16,283**	**23,646**
Income tax expense	5,319	2,914	3,896
Net income	**$ 15,886**	**$ 13,369**	**$ 19,750**
Net income per common share outstanding:			
Basic	$ 2.11	$ 1.79	$ 2.66
Diluted	$ 2.09	$ 1.77	$ 2.63
Weighted average common shares outstanding:			
Basic	7,524	7,484	7,424
Diluted	7,615	7,568	7,516

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2021, 2020 and 2019

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
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**
Share-based compensation	45	-	2,428	-	-	-	2,428
Exercise of stock options	7	-	162	-	-	-	162
Net share settlement of restricted stock units	(17)	-	(923)	-	-	-	(923)
Net income	-	-	-	15,886	-	-	15,886
Balance at December 31, 2021	**7,535**	**$ 75**	**$ 34,151**	**$ 160,807**	**30**	**$ (587)**	**$ $194,446**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2021	2020	2019
Cash flows from operating activities:			
Net income from consolidated operations	$ 15,886	$ 13,369	$ 19,750
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,410	8,268	8,172
(Gain) loss on sales of property, plant and equipment	(14)	459	-
Share-based compensation	2,428	1,807	1,591
Interest expense on finance leases	3	2	-
Deferred income taxes	(1,794)	136	792
Changes in operating assets and liabilities:			
Receivables, net	(7,754)	2,220	(327)
Inventories	(4,496)	(366)	1,300
Prepaid expenses	(557)	(256)	(98)
Refundable income taxes	893	295	2,006
Other assets	(681)	(73)	110
Accounts payable	102	(681)	(2,472)
Accrued expenses	1,006	(539)	25
Deferred revenue	2,294	(687)	67
Other liabilities	(1,433)	1,083	313
Net cash provided by operating activities	**14,293**	**25,037**	**31,229**
Cash flows from investing activities:			
Additions to property, plant and equipment	(5,395)	(4,368)	(5,778)
Acquisition of Contech Medical, net of cash acquired	(9,500)	-	-
Acquisition of DAS Medical, net of cash acquired	(86,678)	-	-
Proceeds from sale of property, plant and equipment	114	107	4
Net cash used in investing activities	**(101,459)**	**(4,261)**	**(5,774)**
Cash flows from financing activities:			
Proceeds from advances on revolving line of credit	34,839	5,500	-
Payments on revolving line of credit	-	(5,500)	(8,000)
Proceeds from the issuance of long-term debt	40,000	-	-
Principal repayment of long-term debt	-	-	(17,143)
Principal payments on finance lease obligations	(29)	(11)	-
Proceeds from the exercise of stock options	162	474	705
Payment of statutory withholding for restricted stock units vested	(923)	(748)	(512)
Net cash (used in) provided by financing activities	**74,049**	**(285)**	**(24,950)**
Net change in cash and cash equivalents	(13,117)	20,491	505
Cash and cash equivalents at beginning of year	24,234	3,743	3,238
Cash and cash equivalents at end of year	**$ 11,117**	**$ 24,234**	**$ 3,743**

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 of the Company include the accounts and results of operations of UFP Technologies, Inc. and its wholly-owned subsidiaries, Dielectrics, Inc. ("Dielectrics"), Moulded Fibre Technology, Inc., Contech Medical, Inc. ("Contech"), DAS Medical Holdings, LLC ("DAS Medical"), and DAS Medical's wholly-owned subsidiaries, Sterimed, LLC, One Degree Medical Holdings, LLC, DAS Medical Corporation, and its wholly-owned subsidiary DAS Medical International, S.R.L., Simco Industries, Inc., and UFP Realty LLC ("UFP Realty"), and UFP Realty's wholly-owned subsidiaries,. All significant inter-company 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 the fair value of intangible assets, 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.

(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, 2021 and 2020, 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.

(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, 2021.

(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, 2021.

(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 and 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, 2021 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. In performing the most recent "step 1" evaluation of goodwill impairment, 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 our most recent step 1 evaluation, 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 changed its annual impairment testing date in 2021 to October 1, in order to allow for sufficient time to complete its analysis. The Company performed a qualitative assessment ("step 0") as of October 1, 2021 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 most recent step 1 analysis and the calculated excess fair value over carrying amount, financial performance, forecasts and trends, market cap, regulatory and environmental issues, macroeconomic conditions, industry and market considerations, raw material costs, and management stability.

The net carrying amounts of goodwill for the years ended December 31, 2020 and 2021 are as follows (in thousands):

	Goodwill
December 31, 2020	$ 51,838
Acquired in Contech Medical business combination (see Note 2)	4,278
Acquired in DAS Medical business combination (See Note 2)	51,789
December 31, 2021	**$ 107,905**

Approximately $104.4 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, 2021 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"), 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, 2021, 1,298,721 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 97,508 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, 2021, 185,000 options have been granted and 5,500 options are outstanding. At December 31, 2021, 768,052 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, 2021, 390,634 options have been granted, and 93,171 options are outstanding. For the year ended December 31, 2021, 3,660 RSUs are being reserved for outstanding grants of RSUs, and 45,604 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 carryforwards. 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 19).

(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, 2021, 2020 and 2019.

(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 $8.5 million, $8.2 million, and $8.8 million were expensed in the years ended December 31, 2021, 2020 and 2019, respectively.

Recent Accounting Pronouncements

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

(2) Acquisitions

Contech Medical

On October 12, 2021 the Company purchased 100% of the outstanding shares of common stock of Contech Medical, Inc., pursuant to a stock purchase agreement and related agreements, for an aggregate purchase price of $9.5 million in cash, the assumption of a contingent liability of $0.5 million plus up to an additional $5 million based upon the achievement of certain EBITDA targets of Contech for the 12-month period ended June 30, 2022. The purchase price was subject to adjustment based upon Contech's working capital at closing. 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 1987, Contech is based in Providence, Rhode Island with partner manufacturing in Costa Rica. Contech is a global leader in the design, development, and manufacture of Class III medical device packaging primarily for catheters and guide wires. The Company has leased the Providence location from a realty trust owned by the selling shareholders and affiliates. The lease is for five years with one five-year renewal option.

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):

Fair value of consideration transferred:	
Cash paid at closing	$ 9,766
Contingent liability (Earn-out)	4,543
Other liability	500
Cash from Contech	(266)
Total consideration	**$ 14,543**
Purchase Price Allocation:	
Accounts receivable	$ 2,851
Inventory	2,320
Other current assets	37
Property, plant and equipment	1,170
Customer Contacts & Relationships	3.043
Intellectual Property	2,247
Non-Compete agreement	86
Lease right of use assets	1,523
Goodwill	4,278
Total identifiable assets	**$ 17,555**
Accounts payable	(1,015)
Accrued expenses	(414)
Deferred revenue	(60)
Lease liabilities	(1,523)
Net assets acquired	**$ 14,543**

Acquisition costs associated with the transaction were approximately $40 thousand and were charged to expense in the year ended December 31, 2021. These costs were primarily for legal and valuation services and are reflected on the face of the income statement.

The amount of revenue and net income of Contech recognized since the acquisition date, which is included in the condensed consolidated statement of income for the year ended December 31, 2021, was approximately $4.5 million and $0.5 million, respectively.

DAS Medical

On December 22, 2021 the Company purchased 100% of the outstanding membership interests of DAS Medical Holdings, LLC, (DAS Medical) pursuant to a Securities Purchase Agreement, for a net purchase price of $66.7 million in cash. The purchase price is subject to adjustment based upon DAS Medical's working capital at closing, and the purchase price may be increased by up to $20.0 million in earn-out payments based upon the performance of the business during the four-year period following the closing. A portion of the purchase price is being held in escrow to indemnify the Company against certain claims, losses, and liabilities, as well as to provide for liquidated damages in the event that the Sellers' representative fails to deliver to the Company certain audited financial statements of DAS Medical for pre-closing periods. The Purchase Agreement contains customary representations, warranties, and covenants customary for transactions of this type.

In connection with its entry into the Purchase Agreement, the Company also entered into an Agreement for the Purchase and Sale of Personal Goodwill (the "Goodwill Agreement") with the purchase price beneficiaries. Pursuant to the terms of the Goodwill

Agreement, on December 22, 2021, the Company purchased from the beneficiaries their personal goodwill, including business relationships, trade secrets, and knowledge in connection with DAS Medical's business, for a purchase price of $20 million in cash.

The Company has also entered into Non-Competition Agreements with the beneficiaries, and the Company has agreed to pay additional consideration to the parties to the Non-Competition Agreements, including an aggregate of $10.0 million in payments over the 10 years following the closing of the DAS Medical acquisition for the 10-year noncompetition covenants of certain key owners.

Founded in 2010, DAS Medical is headquartered in Atlanta, Georgia, with manufacturing in the Dominican Republic. DAS Medical is a medical device contract manufacturer specializing in the design, development, and production of single-use surgical equipment covers, robotic draping systems, and fluid control pouches.

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 preliminary estimates of fair value (in thousands):

Fair value of consideration transferred:	
Cash paid at closing	$ 95,000
Contingent liability (Earn-out)	5,188
Non-Compete agreement	8,855
Cash from DAS	(8,316)
Total consideration	**$ 100,727**
Purchase Price Allocation:	
Accounts receivable	$ 2,351
Inventory	7,978
Other current assets	68
Property, plant and equipment	3,314
Customer Contracts & Relationships	36,730
Intellectual Property	2,380
Non-Compete agreement	4,697
Lease right of use assets	1,221
Goodwill	51,789
Total identifiable assets	**$ 110,528**
Accounts payable	(5,238)
Accrued expenses	(3,336)
Deferred revenue	(6)
Lease liabilities	(1,221)
Net assets acquired	**$ 100,727**

Acquisition costs associated with the transaction were approximately $293 thousand and were charged to expense in the year ended December 31, 2021. These costs were primarily for legal and valuation services and are reflected on the face of the income statement.

The amount of revenue and net income of DAS Medical recognized since the acquisition date, which is included in the condensed consolidated statement of income for the year ended December 31, 2021, was approximately $1.4 million and $0.1 million, respectively.

The following table contains an unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2021, as if both acquisitions had occurred at the beginning of the respective years (in thousands):

	Years Ended December 31	
	2021	**2020**
	(Unaudited)	(Unaudited)
Sales	$ 269,932	$ 235,328
Operating Income	$ 25,525	$ 22,264
Net Income	$ 20,296	$ 18,087
Earnings per share:		
Basic	$ 2.67	$ 2.42
Diluted	$ 2.70	$ 2.39

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

(3) 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 19 for further information regarding net sales by market):

	Years Ended December 31		
	2021	2020	2019
Net sales of:			
Products	$ 201,248	$ 172,299	$ 193,016
Tooling and Machinery	1,814	2,787	2,730
Engineering services	3,258	4,287	2,635
Total net sales	**$ 206,320**	**$ 179,373**	**$ 198,381**

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, 2021 and 2020 (in thousands):

	Contract Liabilities Years Ended December 31	
	2021	2020
Deferred revenue - beginning of period	$ 1,887	$ 2,574
Acquired in business combinations	69	-
Increases due to consideration received from customers	4,007	2,673
Revenue recognized	(1,716)	(3,360)
Deferred revenue - end of period	**$ 4,247**	**$ 1,887**

Revenue recognized during the years ended December 31, 2021 and 2020 from amounts included in deferred revenue at the beginning of the period were approximately $0.8 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, 2021 and 2020 (in thousands):

	Contract Assets Years Ended December 31	
	2021	2020
Unbilled Receivables - beginning of period	$ 271	$ 72
Increases due to revenue recognized, not invoiced to customers	1,815	3,147
Decreases due to customer invoicing	(2,012)	(2,948)
Unbilled Receivables - end of period	**$ 74**	**$ 271**

(4) Supplemental Cash Flow Information

	Years Ended December 31		
	2021	2020	2019
Cash paid for:		(in thousands)	
Interest	$ 53	$ 71	$ 664
Income taxes, net of refunds	5,914	2,481	1,255
Non-cash investing and financing activities:			
Capital additions accrued but not yet paid	$ $135	$ 225	$ 213
Accrued contingent consideration	9,731	-	-
Present value of non-competition payments	8,855	-	-
Operating lease right of use assets	5,299	-	-
Operating lease liabilities	(5,299)	-	-

(5) Receivables and Allowance for Credit Losses

Receivables consist of the following (in thousands):

	December 31	
	2021	2020
Accounts receivable–trade	$ 39,903	$ 26,912
Less allowance for credit losses	(519)	(484)
Receivables, net	**$ 39,384**	**$ 26,428**

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 and the financial condition of customers. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. The Company's monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic 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, 2021 and 2020 (in thousands):

	Allowance for Credit Losses Years Ended December 31	
	2021	2020
Allowance - beginning of period	$ 484	$ 486
Provision for (reversal of) expected credit losses	179	13
Amounts written off against the allowance, net of recoveries	(144)	(15)
Allowance - end of period	**$ 519**	**$ 484**

(6) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2021	2020
Raw materials	$ 22,184	$ 12,229
Work in progress	4,205	1,991
Finished goods	7,047	4,422
Total Inventory	**$ 33,436**	**$ 18,642**

(7) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2021 and 2020 are as follows (in thousands):

December 31, 2021	Intellectual Property Tradename & Brand	Non-Compete	Customer List	Total
Weighted-average amortization period	11.9 years	9.5 years	20 years	
Gross amount	$ 4,994	$ 5,245	$ 62,328	$ 72,567
Accumulated amortization	(175)	(365)	(4,442)	$ (4,982)
Net balance	**$ 4,819**	**$ 4,880**	**$ 57,886**	**$ 67,585**

December 31, 2020	Tradename & Brand	Non-Compete	Customer List	Total
Weighted-average amortization period	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**

Amortization expense related to intangible assets was approximately $1.3 million, $1.3 million, and $1.3 million for the years ended December 31, 2021, 2020 and 2019, respectively. The estimated remaining amortization expense as of December 31, 2021 is as follows (in thousands):

2022	$ 4,118
2023	4,033
2024	4,026
2025	4,026
2026	4,023
Thereafter	47,359
Total	**$ 67,585**

(8) Property, Plant and Equipment

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

	December 31 2021	2020
Land and improvements	$ 3,191	$ 3,191
Buildings and improvements	36,234	36,017
Leasehold improvements	4,859	3,160
Machinery & equipment	72,963	67,880
Furniture, fixtures, computers & software	6,052	6,135
Construction in progress	3,538	2,005
Property, plant and equipment	$ 126,837	$ 118,388
Accumulated depreciation and amortization	(70,268)	(64,633)
Net property, plant and equipment	**$ 56,569**	**$ $53,755**

Depreciation and amortization expense of Property, Plant and Equipment for the years ended December 31, 2021, 2020 and 2019, were approximately $7.1 million, $7.0 million, and $6.9 million, respectively.

(9) Indebtedness

On December 22, 2021, the Company, as the borrower, entered into a secured $130 million Second Amended and Restated Credit Agreement (the "Second 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 Second Amended and Restated Credit Agreement amends and restates the Company's prior credit agreement, originally dated as of February 1, 2018.

The credit facilities under the Second Amended and Restated Credit Agreement consist of a $40 million secured term loan to the Company and a secured revolving credit facility, under which the Company may borrow up to $90 million. The Second Amended and Restated Credit Agreement matures on December 21, 2026. The secured term loan requires quarterly principal payments of $1,000,000 commencing on March 31, 2022. The proceeds of the Second Amended and Restated Credit Agreement may be used for general corporate purposes, including funding the acquisition of DAS Medical, as well as certain other permitted acquisitions.

The Company's obligations under the Second Amended and Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

The Second Amended and Restated Credit Agreement calls for interest determined by the Bloomberg Short-Term Bank Yield Index rate ("BSBY") plus a margin that ranges from 1.25% to 2.0% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from .25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the Second Amended and 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 Second Amended and Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. At December 31, 2021, the Company had approximately $75 million in borrowings outstanding under the Second Amended and Restated Credit Agreement, which were used as partial consideration for the DAS Medical acquisition, and also had approximately $0.7 million in standby letters of credit outstanding, drawable as a financial guarantee on worker's compensation insurance policies. At December 31, 2021, the applicable interest rate was approximately 1.58%, and the Company was in compliance with all covenants under the Second Amended and Restated Credit Agreement. In conjunction with the Second Amended and Restated Credit Agreement, the Company deferred $161 thousand of debt issuance costs which are recorded in prepaid expenses on the Consolidated Balance Sheet.

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

	December 31 2021
Revolving credit facility	$ 35,000
Term loan	40,000
Term long-term debt	75,000
Current portion	(4,000)
Long-term debt, excluding current portion	**$ 71,000**

Future maturities of long-term debt at December 31, 2021 are as follows (in thousands):

Year ended December 31,	**Term Loan**	**Revolving credit facility**	**Total**
2022	$ 4,000	$ -	$ 4,000
2023	4,000	-	4,000
2024	4,000	-	4,000
2025	4,000	-	4,000
2026	24,000	$ 35,000	59,000
	$ 40,000	**$ 35,000**	**$ 75,000**

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 first 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 previous 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 $8,571,424 at December 31, 2021. The fair value of the swap as of December 31, 2021 was approximately $(176) 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 income of approximately $24 thousand and other expense of approximately $366 thousand during the years ended December 31, 2021 and 2020, respectively.

As the Company has paid the remaining balance of the term loan that was associated with the swap 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.

(10) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2021	2020
Compensation	$ 4,878	$ 2,443
Benefits/self-insurance reserve	414	921
Paid time off	1,620	1,538
Short-term portion of deferred payroll tax	905	810
Other	4,883	2,232
	$ 12,700	**$ 7,944**

(11) Income Tax

The Company's income tax provision for the years ended December 31, 2021, 2020, and 2019 consists of the following (in thousands):

	Years Ended December 31		
	2021	2020	2019
Current:			
Federal	$ 5,793	$ 2,223	$ 2,920
State	1,320	555	184
	7,113	**2,778**	**3,104**
Deferred:			
Federal	(1,399)	(28)	485
State	(395)	164	307
	(1,794)	**136**	**792**
Total income tax provision	**$ 5,319**	**$ 2,914**	**$ 3,896**

As a result of the Company's acquisition of DAS Medical, it will be subject to foreign taxes beginning in 2022.

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	
	2021	2020
Deferred tax assets:		
Reserves	$ 380	$ 351
Inventory capitalization	706	550
Compensation programs	1,842	802
Equity-based compensation	668	524
Lease liability	2,427	567
Intangible assets	877	-
Deferred revenue	365	-
Other	17	123
Gross deferred tax assets	**7,282**	**2,917**
Valuation allowance	(17)	(64)
Net deferred tax assets	**$ 7,265**	**$ 2,853**
Deferred tax liabilities:		
Excess of book over tax basis of fixed assets	$ (4,481)	$ (4,527)
Goodwill	(3,628)	(2,795)
Right of use asset	(2,419)	(554)
Intangible assets	-	(34)
Total deferred tax liabilities	**(10,528)**	**(7,910)**
Net long-term deferred tax liabilities	**$ (3,263)**	**$ (5,057)**

The amounts recorded as deferred tax assets as of December 31, 2021 and 2020 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 $7.3 million at December 31, 2021, 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 $17 thousand and $64 thousand at December 31, 2021 and 2020, respectively, for deferred tax assets (net of federal tax benefit), primarily related to tax credits generated in its 2020 and 2019 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 valuation allowance decreased by $47 thousand during the year ended December 31, 2021, primarily as a result of state credit utilization.

The Company has approximately $75 thousand of tax credit carryforwards related to the state of Massachusetts that expires in 2022.

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		
	2021	**2020**	**2019**
Computed "expected" tax rate	21.0%	21.0%	21.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	4.0	4.2	1.8
Meals and entertainment	-	0.1	0.2
Tax credits	(1.7)	(7.2)	(6.2)
Return to provision adjustments	0.7	-	-
Unrecognized tax benefits	-	-	(0.7)
Excess tax benefits on equity awards	-	(1.2)	(0.7)
Excess compensation	0.7	0.8	0.6
Other	0.6	0.2	0.4
Change in valuation allowance	(0.2)	-	0.1
Effective tax rate	**25.1%**	**17.9%**	**16.5%**

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 years 2016 through 2019. The Company's federal tax return is currently being audited for the year 2019. Federal and state tax returns for the years 2017 through 2020 remain open to examination by the IRS and various state jurisdictions.

At December 31, 2021 and 2020, the Company did not have any gross unrecognized tax benefits ("UTB") resulting from uncertain tax positions.

(12) 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		
	2021	**2020**	**2019**
Basic weighted average common shares outstanding during the year	7,524	7,484	7,424
Weighted average common equivalent shares due to stock options and restricted stock units	91	84	92
Diluted weighted average common shares outstanding during the year	**7,615**	**7,568**	**7,516**

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, 2021, 2020 and 2019, the number of stock awards excluded from the computation was 10,716, 14,892, and 16,536, respectively.

(13) 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:	**2021**	**2020**	**2019**
Common stock grants	$ 400	$ 400	$ 400
Stock option grants	210	232	151
Restricted Stock Unit awards	1,818	1,175	1,040
Total share-based compensation	$ 2,428	$ 1,807	$ 1,591

The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was approximately $780 thousand, $734 thousand, and $653 thousand for the years ended December 31, 2021, 2020 and 2019, respectively.

Common stock grants

The compensation expense for common stock granted during the three-year period ended December 31, 2021, 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, 2021, 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		
	2021	**2020**	**2019**
Expected volatility	33.7%	32.8%	28.9%
Expected dividends	None	None	None
Risk-free interest rate	0.8%	0.3%	2.3%
Exercise price	$57.34	$43.95	$38.61
Expected term	6.2 years	6.1 years	6.0 years
Weighted-average grant date fair value	$ 19.60	$ 14.10	$ 12.70

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, 2021:

	Shares Under Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2020	**94,513**	**$ 30.22**	-	-
Granted	10,716	57.34	-	-
Exercised	(6,558)	24.77	-	-
Outstanding December 31, 2021	**98,671**	**$ 33.53**	**5.81**	**$ 3,624**
Exercisable at December 31, 2021	**87,955**	**$ 30.63**	**5.37**	**$ 3,486**
Vested and expected to vest at December 31, 2021	**98,671**	**$ 33.53**	**5.81**	**$ 3,624**

During the years ended December 31, 2021, 2020 and 2019, 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 $0.2 million, $0.8 million, and $1.0 million, respectively, and the total amount of consideration received from the exercise of these options was approximately $0.2 million, $0.5 million, and $0.7 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, 2021, 2020 and 2019, 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, 2021:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2020	**93,187**	**$ 35.03**
Awarded	48,483	50.12
Shares vested	(39,214)	32.86
Forfeitures	(1,288)	49.21
Outstanding at December 31, 2021	**101,168**	**$ $41.78**

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, 2021, 14,190 shares were redeemed for this purpose at an average market price of $52.55. During the years ended December 31, 2020 and 2019, 11,423 and 8,341 shares were redeemed for this purpose at an average market price of $49.91 and $33.69, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2021, vest (in thousands):

	Options	Restricted Stock Units	Total
2022	$ $41	$ 1,370	$ 1,411
2023	-	898	898
2024	-	116	116
Total	**$ 41**	**$ 2,384**	**$ 2,425**

(14) 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)	
	2021	**2020**
Lease Cost:		
Finance lease cost:		
Amortization of right of use assets	$ 27	$ 10
Interest on lease liabilities	3	2
Operating lease cost	1,263	1,207
Variable lease cost	263	215
Short-term lease cost	43	28
Total lease cost	**$ 1,599**	**$ 1,462**
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,284	$ 1,212
Financing cash flows from finance leases	29	11
ROU assets obtained in exchange for finance lease obligations	198	110
Weighted-average remaining lease term (years):		
Finance	**4.54**	**6.33**
Operating	**3.95**	**1.78**
Weighted-average discount rate:		
Finance	**2.10%**	**2.26%**
Operating	**2.63%**	**4.37%**

The aggregate future lease payments for leases as of December 31, 2021 and 2020 were as follows (in thousands):

	December 31, 2021	
	Finance	**Operating**
2022	$ 63	$ 2,212
2023	63	1,297
2024	63	1,230
2025	63	1,100
2026	29	831
Thereafter	6	3,298
Total lease payments	287	9,968
Less: Interest	(14)	(884)
Present value of lease liabilities	**$ 273**	**$ 9,084**

Rent expense amounted to approximately $1.4 million, $1.3 million, and $1.2 million in 2021, 2020 and 2019, respectively.

(15) Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	December 31	
	2021	**2020**
Accrued contingent consideration (earn-out)	$ 9,731	$ -
Present value of non-competition payments	8,855	-
Other	676	1,271
Present value of lease liabilities	**$ 19,262**	**$ 1,271**

(16) 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 14 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.

(c) ***Contingent Consideration*** – In conjunction with both the Contech Medical and DAS Medical acquisitions in the fourth quarter of 2021, the Company incurred liabilities for certain contingent consideration related to the valuation of earn-out payments based upon the performance of the business. Also in conjunction with the DAS Medical acquisition, the Company incurred a liability for contingent consideration related to the present value of non-competition payments. We re-measure contingent liabilities each reporting period and record changes in the fair value through a separate line item within our consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration liability can result from changes in discount rates, periods, timing, and amount of projected revenue or timing or likelihood of achieving regulatory, revenue, or commercialization-based milestones. The use of alternative valuation assumptions, including estimated revenue projections, growth rates, cash flows, discount rates, useful life or probability of achieving clinical, regulatory, or revenue-based milestones could result in different purchase price allocations and recognized amortization expense and contingent consideration expense or benefit in current and future periods.

(17) 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 $0.6 million, $0.9 million, and $1.0 million for the years 2021, 2020 and 2019, 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, 2021 and 2020, the balance of the deferred compensation liability totaled approximately $4.3 million and $3.8 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 $4.3 million and $3.7 million as of December 31, 2021 and 2020, respectively.

(18) 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 31, 2021**	**December 31, 2020**
Liabilities:		
Derivative financial instruments	$ 176	$ 465

Level 3	**December 31, 2021**	**December 31, 2020**
Purchase price contingent consideration (Note 2):		
Accrued contingent consideration (earn-out)	$ 9,731	$ -
Present value of non-competition payments	8,855	-

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.

In connection with the acquisitions discussed in Note 2, "Acquisitions," the Company is required to make contingent payments, subject to the entities achieving certain financial performance thresholds. The contingent consideration payments for both acquisitions combined are up to $25 million. The fair value of the liabilities for the contingent consideration payments recognized upon the acquisition as part of the purchase accounting opening balance sheets totaled approximately $9.7 million and was estimated by discounting to present value the probability-weighted contingent payments expected to be made. Assumptions used in this calculation were management's financial forecasts, discount rate, and various probability factors. The ultimate settlement of contingent consideration could deviate from current estimates based on the actual results of these financial measures. This liability is considered to be a Level 3 financial liability that is re-measured each reporting period. The change in fair value of contingent consideration for the acquisition is included in change in fair value of contingent consideration in the consolidated statements of operations.

Also in connection with the DAS Medical acquisition, the Company has entered into Non-Competition Agreements with the beneficiaries, and the Company has agreed to pay additional consideration to the parties to the Non-Competition Agreements, including an aggregate of $10.0 million in payments over the 10 years following the closing of the DAS Medical acquisition for the 10-year noncompetition covenants of certain key owners. The present value of the Non-Competition Agreements totaled approximately $8.9 million. This liability is considered to be a Level 3 financial liability that is re-measured each reporting period. The change in fair value of contingent consideration for the acquisition is included in change in fair value of contingent consideration in the consolidated statements of operations.

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.

(19) 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, 2021, 2020 and 2019. At December 31, 2021 and 2020, one customer represented approximately 9.6% and 13.3% of gross accounts receivable, respectively. A significant 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, Aerospace & Defense, Automotive, Industrial, and Electronics markets. Sales by market for the years ended December 31, 2021, 2020 and 2019 are as follows (in thousands):

	2021		2020		2019	
Market	**Net Sales**	**%**	**Net Sales**	**%**	**Net Sales**	**%**
Medical	$ 132,520	64.2%	$ 120,258	67.2%	$ 128,915	65.1%
Consumer	26,048	12.6%	18,316	10.2%	17,669	8.9%
Aerospace & Defense	16,103	7.8%	12,810	7.1%	13,778	6.9%
Automotive	15,596	7.6%	14,607	8.1%	20,004	10.1%
Industrial	8,661	4.2%	7,622	4.2%	9,607	4.8%
Electronics	7,392	3.6%	5,760	3.2%	8,408	4.2%
Net Sales	**$ 206,320**	**100.0%**	**$ 179,373**	**100.0%**	**$ 198,381**	**100.0%**

Certain amounts for the years ended December 31, 2020 and 2019 were reclassified between markets to conform to the current year presentation.

(20) Quarterly Financial Information (unaudited)

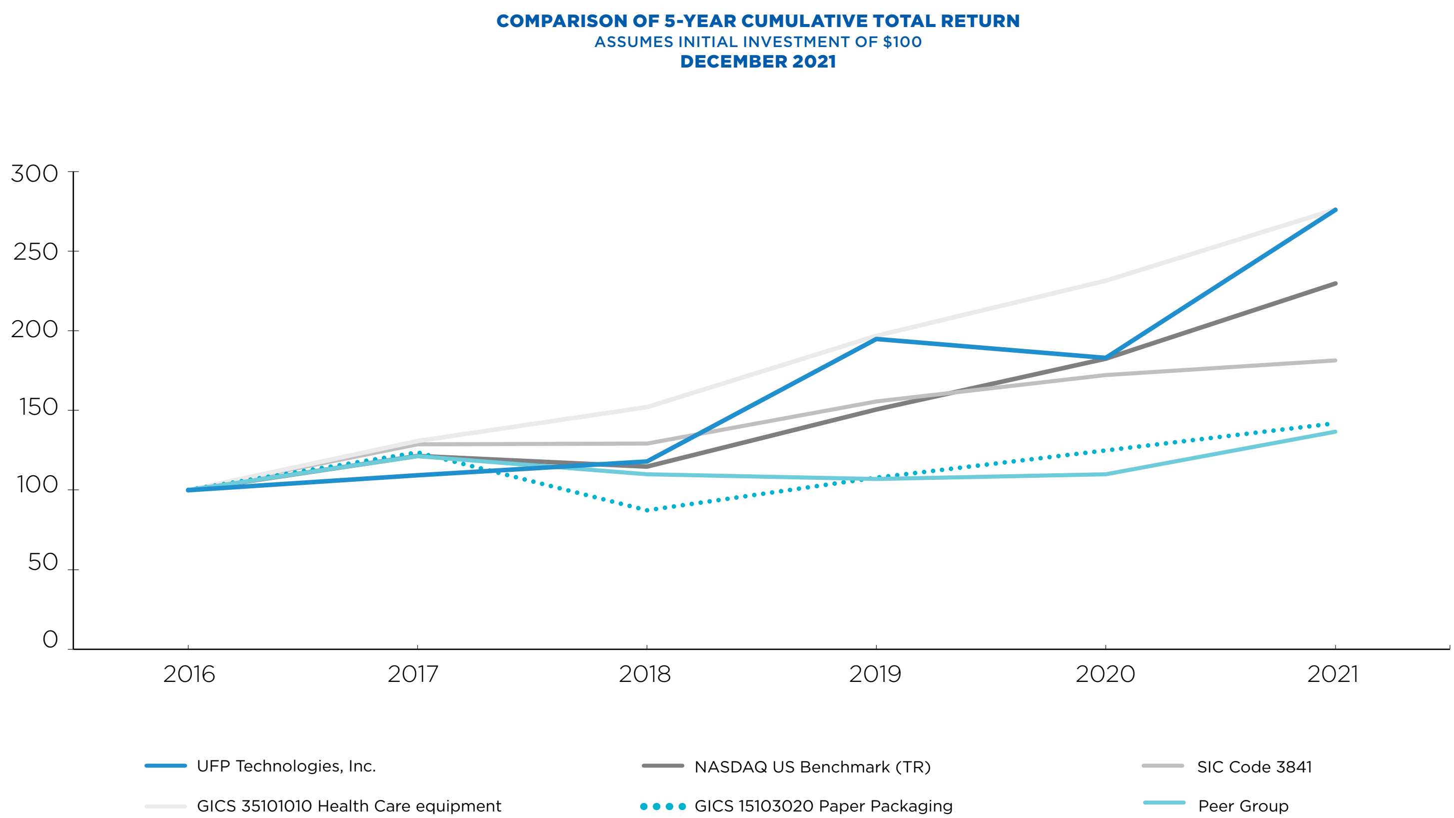
Summarized quarterly financial data is as follows (in thousands, except per share data):

2021	Q1	Q2	Q3	Q4
Net sales	$ 48,599	$ 50,655	$ 50,723	$ 56,343
Gross profit	12,609	13,414	12,016	13,075
Net income	4,163	4,715	3,789	3,219
Basic net income per share	0.55	0.63	0.50	0.43
Diluted net income per share	0.55	0.62	0.50	0.42

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

STOCK PERFORMANCE GRAPH

The following graph compares cumulative total stockholder return on our Common Stock since December 31, 2016, with the cumulative total return of the (1) NASDAQ US Benchmark (TR), (2) SIC Code 3841 Surgical and Medical Instruments and Apparatus, (3) GICS 15103020 Paper Packaging, (4) GICS 35101010 Health Care Equipment and (5) 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 2022 Annual Meeting of Stockholders. This graph assumes the investment of $100 on December 31, 2016, in our Common Stock, and for comparison the companies that comprise each of (1) the NASDAQ US Benchmark (TR), (2) SIC Code 3841 Surgical and Medical Instruments and Apparatus, (3) GICS 15103020 Paper Packaging, (4) GICS 35101010 Health Care Equipment and (5) 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. 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 2022; 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 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 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, 2021. 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
Brooklyn, NY 11219

ANNUAL MEETING
The annual meeting of stockholders will be held virtually at 10:00 a.m., on June 8, 2022. 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, 2021, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Company, or on the Company's website at www.ufpt.com/investors/filings.html.

CORPORATE HEADQUARTERS
UFP Technologies, Inc.
100 Hale Street
Newburyport, MA 01950 USA
(978) 352-2200 phone

PLANT LOCATIONS
Alabama, California, Colorado, Dominican Republic, Florida, Georgia, Iowa, Massachusetts, Mexico, Michigan, Rhode Island, Texas

INDEPENDENT PUBLIC ACCOUNTANTS
Grant Thornton LLP
75 State Street, 13th floor
Boston, MA 02109

CORPORATE COUNSELS
Lynch Fink Harrington & Gray LLP
6 Beacon Street, Suite 415
Boston, MA 02108

Bodman PLC
201 Big Beaver Road, Suite 500
Troy, MI 48084

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

Steven G. Cardin **o**
Vice President, Chief Operating Officer, MedTech

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

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

Jason Holt **o**
Vice President and General Manager, Advanced Components

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**
President, MedTech

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