UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **JUNE 30, 2021**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number: **001-12648**

UFP Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

100 Hale Street, Newburyport, MA 01950, USA
(Address of principal executive offices) (Zip Code)

(978) 352-2200
(Registrant's telephone number, including area code)

____
(Former name, former address, and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	UFPT	The NASDAQ Stock Market L.L.C.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer ☐
Accelerated filer ☒
Non-accelerated filer ☐
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

7,531,404 shares of registrant’s Common Stock, $0.01 par value, were outstanding as of July 30, 2021.

UFP Technologies, Inc.

Index

PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

UFP Technologies, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 30,273	$ 24,234
Receivables, net	31,222	26,428
Inventories	21,160	18,642
Refundable income taxes	854	-
Prepaid expenses and other current assets	2,957	2,560
Total current assets	86,466	71,864
Property, plant and equipment	121,709	118,388
Less accumulated depreciation and amortization	(68,014)	(64,633)
Net property, plant and equipment	53,695	53,755
Goodwill	51,838	51,838
Intangible assets, net	19,090	19,718
Non-qualified deferred compensation plan	4,116	3,724
Finance lease right of use assets	92	100
Operating lease right of use assets	1,836	2,052
Other assets	153	153
Total assets	$ 217,286	$ 203,204
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 8,355	$ 4,121
Accrued expenses	8,192	7,944
Deferred revenue	1,903	1,887
Finance lease liabilities	15	15
Operating lease liabilities	1,174	1,154
Income taxes payable	-	16
Total current liabilities	19,639	15,137
Deferred income taxes	5,440	5,057
Non-qualified deferred compensation plan	3,981	3,810
Finance lease liabilities	78	86
Operating lease liabilities	703	950
Other liabilities	1,131	1,271
Total liabilities	30,972	26,311
Commitments and contingencies		
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; 7.560.963 and 7,531,404 shares issued and outstanding, respectively, at June 30, 2021; 7,529,625 and 7,500,066 shares issued and outstanding, respectively, at December 31, 2020	75	75
Additional paid-in capital	33,027	32,484
Retained earnings	153,799	144,921
Treasury stock at cost, 29,559 shares at June 30, 2021 and 29,559 shares at December 31, 2020	(587)	(587)
Total stockholders' equity	186,314	176,893
Total liabilities and stockholders' equity	$ 217,286	$ 203,204

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

UFP Technologies, Inc.
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net sales	$ 50,655	$ 42,644	$ 99,254	$ 90,921
Cost of sales	37,241	32,695	73,231	68,148
Gross profit	13,414	9,949	26,023	22,773
Selling, general & administrative expenses	7,228	6,665	14,538	14,417
(Gain) loss on sale of property, plant & equipment	(21)	290	(21)	286
Operating income	6,207	2,994	11,506	8,070
Interest (income) expense, net	(21)	33	(5)	49
Other expenses (income)	4	35	(7)	362
Income before income tax expense	6,224	2,926	11,518	7,659
Income tax expense	1,509	608	2,640	1,450
Net income	$ 4,715	$ 2,318	$ 8,878	$ 6,209
Net income per share:				
Basic	$ 0.63	$ 0.31	$ 1.18	$ 0.83
Diluted	$ 0.62	$ 0.31	$ 1.17	$ 0.82
Weighted average common shares outstanding:				
Basic	7,527	7,487	7,517	7,472
Diluted	7,573	7,532	7,575	7,545

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

UFP TECHNOLOGIES, INC.
Condensed Consolidated Statements of Stockholders’ Equity
(In thousands)
(Unaudited)

Three and Six Month Periods Ended June 30, 2021

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
Balance at December 31, 2020	7,500	$ 75	$ 32,484	$ 144,921	30	$ (587)	$ 176,893
Share-based compensation	34	-	501	-	-	-	501
Net share settlement of restricted stock units	(14)	-	(738)	-	-	-	(738)
Net income	-	-	-	4,163	-	-	4,163
Balance at March 31, 2021	7,520	$ 75	$ 32,247	$ 149,084	30	$ (587)	$ 180,819
Share-based compensation	4	-	620	-	-	-	620
Exercise of stock options	7	-	162	-	-	-	162
Net share settlement of restricted stock units	-	-	(2)	-	-	-	(2)
Net income	-	-	-	4,715	-	-	4,715
Balance at June 30, 2021	7,531	$ 75	$ 33,027	$ 153,799	30	$ (587)	$ 186,314

Three and Six Month Periods Ended June 30, 2020

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
Balance at December 31, 2019	7,446	$ 74	$ 30,952	$ 131,552	30	$ (587)	$ 161,991
Share-based compensation	28	-	537	-	-	-	537
Exercise of stock options	20	1	415	-	-	-	416
Net share settlement of restricted stock units	(11)	-	(560)	-	-	-	(560)
Net income	-	-	-	3,891	-	-	3,891
Balance at March 31, 2020	7,483	$ 75	$ 31,344	$ 135,443	30	$ (587)	$ 166,275
Share-based compensation	6	-	561	-	-	-	561
Exercise of stock options	6	-	59	-	-	-	59
Net share settlement of restricted stock units	-	-	(1)	-	-	-	(1)
Net income	-	-	-	2,318	-	-	2,318
Balance at June 30, 2020	7,495	$ 75	$ 31,963	$ 137,761	$ 30	$ (587)	$ 169,212

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

UFP Technologies, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30	
	2021	2020
Cash flows from operating activities:		
Net income	$ 8,878	$ 6,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,172	4,150
(Gain) Loss on disposal of property, plant & equipment	(21)	286
Share-based compensation	1,121	1,098
Interest expense on finance leases	1	-
Deferred income taxes	383	731
Changes in operating assets and liabilities:		
Receivables, net	(4,794)	1,377
Inventories	(2,518)	(2,683)
Prepaid expenses and other current assets	(397)	(1,115)
Refundable income taxes	(870)	483
Other assets	(168)	(5)
Accounts payable	4,032	735
Accrued expenses	248	(1,370)
Deferred revenue	16	74
Non-qualified deferred compensation plan and other liabilities	(196)	766
Net cash provided by operating activities	9,887	10,736
Cash flows from investing activities:		
Additions to property, plant, and equipment	(3,282)	(2,151)
Proceeds from sale of fixed assets	21	27
Net cash used in investing activities	(3,261)	(2,124)
Cash flows from financing activities:		
Proceeds from advances on revolving line of credit	-	5,500
Payments on revolving line of credit	-	(5,500)
Principal payments on finance lease obligation	(9)	(3)
Proceeds from exercise of stock options	162	475
Payment of statutory withholdings for restricted stock units vested	(740)	(561)
Net cash used in financing activities	(587)	(89)
Net increase in cash and cash equivalents	6,039	8,523
Cash and cash equivalents at beginning of period	24,234	3,743
Cash and cash equivalents at end of period	$ 30,273	$ 12,266

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

Notes to Interim Condensed Consolidated Financial Statements

(1) Basis of Presentation

The interim condensed consolidated financial statements of UFP Technologies, Inc. (the "Company") presented herein, have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2020, included in the Company's 2020 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

The condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020, the condensed consolidated statements of income for the three and six months ended June 30, 2021 and 2020, the condensed consolidated statements of stockholders' equity for the three and six months ended June 30, 2021 and 2020, and the condensed consolidated statements of cash flows for the six months ended June 30, 2021 and 2020 are unaudited but, in the opinion of management, include all adjustments (including normal, recurring adjustments) necessary for a fair presentation of results for these interim periods. The condensed consolidated balance sheet as of December 31, 2020 has been derived from the Company's annual financial statements that were audited by an independent registered public accounting firm but does not include all of the information and footnotes required for complete annual financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The results of operations for the three- and six-month period ended June 30, 2021 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2021.

Recent Accounting Pronouncements

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

(2) 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.

Disaggregated Revenue

The following table presents the Company's revenue disaggregated by the major types of goods and services sold to the Company's customers (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Net sales of:	2021	2020	2021	2020
Products	$ 49,466	$ 40,753	$ 96,789	$ 87,782
Tooling and Machinery	332	646	744	1,323
Engineering services	857	1,245	1,721	1,816
Total net sales	$ 50,655	$ 42,644	$ 99,254	$ 90,921

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 contract liabilities included within "deferred revenue" on the condensed consolidated balance sheet.

The following table presents a roll-forward of contract liabilities activity for six-month periods ended June 30, 2021 and 2020 (in thousands):

	Contract Liabilities Six Months Ended June 30,	
	2021	2020
Deferred revenue - beginning of period	$ 1,887	$ 2,574
Increases due to consideration received from customers	560	1,668
Revenue recognized	(544)	(1,594)
Deferred revenue - end of period	$ 1,903	$ 2,648

Revenue recognized during the six-month periods ended June 30, 2021 and 2020 from amounts included in deferred revenue at the beginning of the period were approximately $446 thousand and $771 thousand, respectively.

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

The following table presents a roll-forward of contract assets activity for the six-month periods ended June 30, 2021 and 2020 (in thousands):

	Contract Assets Six Months Ended June 30,	
	2021	2020
Unbilled receivables - beginning of period	$ 271	$ 72
Increases due to revenue recognized, not invoiced to customers	935	1,488
Decreases due to customer invoicing	(1,008)	(1,149)
Unbilled receivables - end of period	$ 198	$ 411

(3) Supplemental Cash Flow Information

	Six Months Ended June 30, 2021	2020
	(in thousands)	
Cash paid for:		
Interest	$ 26	$ 40
Income taxes, net of refunds	3,112	235
Non-cash investing and financing activities:		
Capital additions accrued but not yet paid	$ 202	$ 103

(4) Receivables and Allowance for Credit Losses

Receivables consist of the following (in thousands):

	June 30, 2021	December 31, 2020
Accounts receivable–trade	$ 31,786	$ 26,912
Less allowance for credit losses	(564)	(484)
Receivables, net	$ 31,222	$ 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 as of June 30, 2021 and 2020 (in thousands):

	Allowance for Credit Losses	
	Six Months Ended June 30,	
	2021	2020
Allowance - beginning of period	$ 484	$ 486
Provision for expected credit losses	88	167
Amounts written off against the allowance	(8)	(10)
Allowance - end of period	$ 564	$ 643

(5) 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	June 30, 2021	December 31, 2020
Liabilities:		
Derivative financial instruments	$ (321)	$ (465)

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

The Company has financial instruments, such as accounts receivable, accounts payable, and accrued expenses, that are stated at carrying amounts that approximate fair value because of the short maturity of those instruments. The carrying amount of the Company's long-term debt approximates fair value as the interest rate on the debt approximates the estimated borrowing rate currently available to the Company.

(6) 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).

The Company issues share-based awards through several plans that are described in detail in the notes to the consolidated financial statements for the year ended December 31, 2020. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Share-based compensation related to:	**2021**	**2020**	**2021**	**2020**
Common stock grants	$ 100	$ 100	$ 200	$ 200
Stock option grants	53	54	105	113
Restricted Stock Unit Awards ("RSUs")	467	408	816	785
Total share-based compensation	$ 620	$ 562	$ 1,121	$ 1,098

The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately $200 thousand and $205 thousand for the three-month periods ended June 30, 2021 and 2020, respectively, and approximately $441 thousand and $553 thousand for the six-month periods ended June 30, 2021 and 2020, respectively.

Common stock grants

The compensation expense for common stock grants during the six-month period ended June 30, 2021, was determined based on an approved fixed dollar amount with the number of shares to be determined on the date of issuance.

Stock Option grants

The following is a summary of stock option activity under all plans for the six-month period ended June 30, 2021:

	Shares Under Options	**Weighted Average Exercise Price** (per share)	**Weighted Average Remaining Contractual Life** (in years)	**Aggregate Intrinsic Value** (in thousands)
Outstanding at December 31, 2020	94,513	$ 30.22		
Granted	10,716	57.34		
Exercised	(6,558)	24.77		
Outstanding at June 30, 2021	98,671	$ 33.53	6.32	$ 2,357
Exercisable at June 30, 2021	87,955	$ 30.63	5.87	$ 2,356
Vested and expected to vest at June 30, 2021	98,671	$ 33.53	$ 6.32	$ 2,357

On June 9, 2021, the Company granted options to its directors for the purchase of 10,716 shares of common stock at that day's closing price of $57.34. The compensation expense related to these grants was determined as the fair value of the options using the Black-Scholes option pricing model based on the following assumptions:

Expected volatility	33.7%
Expected dividends	None
Risk-free interest rate	0.8%
Exercise price	$57.34
Expected term	6.2 years
Weighted-average grant date fair value	19.60

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.

During the six-month periods ended June 30, 2021 and 2020, the total intrinsic value of all options exercised was approximately $164 thousand and $757 thousand, respectively, and the total amount of consideration received by the Company from the exercised options was approximately $162 thousand and $474 thousand, 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 both the six-month periods ended June 30, 2021 and 2020, no shares were surrendered for this purpose.

Restricted Stock Unit awards

The following table summarizes information about RSU activity during the six-month period ended June 30, 2021:

	Restricted Stock Units		Weighted Average Grant Date Fair Value
Outstanding at December 31, 2020	93,187	$	35.03
Awarded	48,952		49.76
Shares vested	(33,892)		32.88
Outstanding at June 30, 2021	108,247	$	40.35

At the Company's discretion, upon vesting, 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 and issued to the RSU holder. During the six-month periods ended June 30, 2021 and 2020, 14,122 and 11,233 shares were surrendered at an average market price of $52.47 and $49.98, respectively.

As of June 30, 2021, the Company had approximately $3.7 million of unrecognized compensation expense that is expected to be recognized over a period of 2.75 years.

(7) Inventories

Inventories are stated at the lower of cost (determined using the first-in, first-out method) or net realizable value, and consist of the following at the stated dates (in thousands):

		June 30, 2021		December 31, 2020
Raw materials	$	11,853	$	12,229
Work in process		3,468		1,991
Finished goods		5,839		4,422
Total inventory	$	21,160	$	18,642

(8) 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 pursuant to 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 assumed 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.

	Six Months Ended June 30, ($ in thousands) 2021	2020
Lease Cost:		
Finance lease cost:		
Amortization of right of use assets	$ 8	$ 3
Interest on lease liabilities	1	-
Operating lease cost	598	606
Variable lease cost	116	111
Short-term lease cost	17	14
Total lease cost	$ 740	$ 734

	Six Months Ended June 30, ($ in thousands) 2021	2020
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 608	$ 607
Financing cash flows from finance leases	9	3
ROU assets obtained in exchange for finance lease obligations	-	110
Weighted-average remaining lease term (years):		
Finance	5.83	6.83
Operating	1.64	2.27
Weighted-average discount rate:		
Finance	2.26%	2.26%
Operating	3.99%	4.41%

The aggregate future lease payments for leases as of June 30, 2021 are as follows (in thousands):

	Finance	Operating
Remainder of 2021	$ 9	$ 606
2022	17	1,054
2023	17	115
2024	17	73
2025	17	62
Thereafter	23	31
Total lease payments	100	1,941
Less: Interest	(7)	(64)
Present value of lease liabilities	$ 93	$ 1,877

(9) Income Per Share

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

The weighted average number of shares used to compute basic and diluted net income per share consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Basic weighted average common shares outstanding	7,527	7,487	7,517	7,472
Weighted average common equivalent shares due to restricted stock, stock options and RSUs	46	45	58	73
Diluted weighted average common shares outstanding	7,573	7,532	7,575	7,545

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 income per share because the effect would be antidilutive. For both the three- and six-month periods ended June 30, 2021, the number of stock awards excluded from the computation of diluted earnings per share for this reason was 10,716. For both the three- and six-month periods ended June 30, 2020, the number of stock awards excluded from the computation of diluted earnings per share for this reason was 14,892.

(10) Segment Reporting

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 three- and six-month periods ended June 30, 2021 and 2020. At June 30, 2021 and December 31, 2020, one customer represented approximately 14% and 13.3% of gross accounts receivable, respectively. All of the Company's assets are located in the United States.

The Company's products are primarily sold to customers within the Medical, Consumer, Aerospace & Defense, Automotive, Industrial, and Electronics markets. Net sales by market for the three- and six-month periods ended March 31, 2021 and 2020 are as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021		2020 (1)		2021		2020 (1)	
Market	Net Sales	%	Net Sales	%	Net Sales	%	Net Sales	%
Medical	$ 32,606	64.4%	$ 31,562	74.0%	$ 62,721	63.2%	$ 65,310	71.8%
Consumer	6,080	12.0%	3,230	7.6%	11,676	11.8%	6,695	7.4%
Aerospace & Defense	4,377	8.6%	3,111	7.3%	8,755	8.8%	5,834	6.4%
Automotive	3,567	7.0%	1,450	3.4%	8,214	8.3%	6,052	6.7%
Industrial	2,227	4.4%	2,165	5.1%	4,325	4.3%	4,076	4.5%
Electronics	1,798	3.5%	1,126	2.6%	3,563	3.6%	2,954	3.2%
Net Sales	$ 50,655	100.0%	$ 42,644	100.0%	$ 99,254	100.0%	$ 90,921	100.0%

(1) Certain amounts for the three and six months ended June 30, 2021 were reclassified between markets to conform to the current period presentation.

(11) Other Intangible Assets

The carrying values of the Company's definite lived intangible assets as of June 30, 2021 are as follows (in thousands):

	Tradename & Brand		Non-Compete		Customer List		Total	
Estimated useful life	10 years		5 years		20 years			
Gross amount	$	367	$	462	$	22,555	$	23,384
Accumulated amortization		(125)		(316)		(3,853)		(4,294)
Net balance	$	242	$	146	$	18,702	$	19,090

Amortization expense related to intangible assets was approximately $314 thousand, for both three-month periods ended June 30, 2021 and 2020, and was $628 thousand, for both six-month periods ended June 30, 2021 and 2020. The estimated remaining amortization expense as of June 30, 2021 is as follows (in thousands):

Remainder of 2021	$	628
2022		1,257
2023		1,257
2024		1,164
2025		1,164
Thereafter		13,620
Total	$	19,090

(12) Income Taxes

The determination of income tax expense in the accompanying unaudited condensed consolidated statements of income is based upon the estimated effective tax rate for the year, adjusted for the impact of any discrete items which are accounted for in the period in which they occur. The Company recorded income tax expense of approximately 24.2% and 20.8% of income before income tax expense for the three-month periods ended June 30, 2021 and 2020, respectively. The Company recorded income tax expense of approximately 22.9% and 18.9% of income before income tax expense for each of the six-month periods ended June 30, 2021 and 2020, respectively.

(13) Indebtedness

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

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

The First Amendment amended the Restated Credit Agreement by extending the scheduled maturity date from February 1, 2023 to December 31, 2025 and creating procedures and guidelines for establishing a successor benchmark rate if LIBOR ceases to be available during the term of the revolving credit facility. The Restated Credit Agreement called for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank’s prime rate less a margin that ranges from 0.25% to zero. The First Amendment calls for interest of LIBOR plus a margin that ranges from 1.25% to 1.75% or, at the discretion of the Company, the bank’s prime rate plus a margin that ranges from zero to 0.25%. In both cases the applicable margin remains dependent upon Company performance. The First Amendment also added certain representations and covenants concerning compliance by the Company with legal requirements.

The credit facilities under the Restated Credit Agreement consist of a $20 million unsecured term loan to the Company and an unsecured revolving credit facility, under which the Company may borrow up to $50 million.

The proceeds of the Restated Credit Agreement may be used for general corporate purposes, as well as permitted acquisitions. The Company's obligations under the Restated Credit Agreement are guaranteed by the Subsidiary Guarantors.

Under the Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. As of June 30, 2021 and December 31, 2020 there were no amounts outstanding; the applicable interest rate was approximately 1.09% and the Company was in compliance with all financial covenants under the Restated Credit Agreement. As of both June 30, 2021 and December 31, 2020, there were $0.7 million in standby letters of credit outstanding, drawable as a financial guarantee on worker's compensation insurance policies.

Derivative Financial Instruments

The Company used interest-rate-related derivative instruments to manage its exposure related to changes in interest rates on 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, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, 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 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 expose the Company to variability in interest payments due to changes in interest rates. The Company believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, in connection with the term loan under the Amended and Restated Credit Agreement, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap agreement was established to modify the Company's interest rate exposure by converting the interest on the term loan from a variable rate to a fixed rate to hedge against the possibility of rising interest rates during the term of the loan. As the Company repaid its term loan in full, the swap agreement no longer serves this purpose and may be canceled by the Company prior to its expiration date. The notional amount was approximately $10 million at June 30, 2021. The fair value of the swap as of June 30, 2021 and December 31, 2020 was approximately $(321) thousand and $(465) thousand, respectively, and is included in other liabilities on the condensed consolidated balance sheets. Changes in the fair value and net cash settlement amounts related to the swap are recorded in other expense on the condensed consolidated statements of income and resulted in income of $64 thousand and expense of $144 thousand, respectively, during the three- and six-month periods ended June 30, 2021. In the same periods in 2020, change in the fair value of the swap resulted in income of $8 thousand and expense of $292 thousand, respectively. As the Company has paid the remaining balance of the term loan in its entirety, there is no longer underlying debt to hedge against with the swap. The changes in the fair value of the swap will continue to be accounted for as a financial instrument until the sooner of the time that the Company elects to cancel it or until its maturity.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

Some of the statements contained in this Report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Management and representatives of UFP Technologies, Inc. (the "Company") also may from time to time make forward-looking statements. These statements are subject to known and unknown risks, uncertainties, and other factors, which may cause our or our industry's actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about the Company's prospects;

statements about the potential further impact the novel coronavirus ("COVID-19") pandemic may have on the Company's business, financial condition and results of operations, including with respect to the different markets in which the Company participates, the demand for its products, the well-being and availability of the Company's employees, the continuing operation of the Company's locations, delayed payments by the Company's customers and the potential for reduced or canceled orders, the Company's efforts to address the pandemic, including regarding the safety of its employees, the maintenance of its facilities and the sufficiency of the Company's supply chain, inventory, liquidity and capital resources, including increased costs in connection with such efforts, the impact of the pandemic on the businesses of the Company's suppliers and customers, and the overall impact the pandemic may have on the Company's financial results in 2021; statements about the Company's acquisition strategies and opportunities and the Company's growth potential and strategies for growth; expectations regarding customer demand; expectations regarding the Company's liquidity and capital resources, including the sufficiency of its cash reserves and the availability of borrowing capacity to fund operations and/or potential future acquisitions; anticipated revenues and the timing of such revenues; expectations regarding the potential impact of the proposed phase out of LIBOR by the end of 2021; expectations about shifting the Company's book of business to higher-margin, longer-run opportunities; anticipated trends and potential advantages in the different markets in which the Company competes, including the medical, aerospace and defense, automotive, consumer, electronics, and industrial markets, and the Company's plans to expand in certain of its markets; statements regarding anticipated advantages the Company expects to realize from its investments and capital expenditures; statements regarding anticipated advantages to improvements and alterations at the Company's existing plants; expectations regarding the Company's manufacturing capacity, operating efficiencies, and new production equipment; statements about new product offerings and program launches; statements about the Company's participation and growth in multiple markets; statements about the Company's business opportunities; and any indication that the Company may be able to sustain or increase its sales, earnings or earnings per share, or its sales, earnings or earnings per share growth rates.

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

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

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

Overview

UFP Technologies, Inc. (the “Company”) 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, the Company 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. 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 and sales for the Company for the six-month period ended June 30, 2021 increased 9.2% to $99.3 million from $90.9 million in the same period of 2020. Gross margins for the six-month period ended June 30, 2021 increased to 26.2% from 25.0% in the same period last year. Operating income and net income increased 42.6% and 43.0%, respectively.

Recent Developments

IMPACT OF COVID-19 ON OUR BUSINESS

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

Our operations continue to expose us to risks associated with the COVID-19 pandemic. The COVID-19 pandemic has impacted the cost of manufacturing our goods, including higher labor costs, maintenance costs and manufacturing inefficiencies due to employee absenteeism and significantly enhanced cleaning and sterilization. There are continuing delays in scheduling elective medical procedures and exams, there is still a significant reduction in physician office visits from pre-pandemic levels, and hospitals continue to postpone or delay capital purchases. 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), and how quickly and to what extent economic conditions improve and normal business 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, and access to capital which we expect will enable us to effectively manage through the COVID-19 pandemic.

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

The CARES Act was enacted on March 27, 2020 in the United States. The CARES Act and related notices include several significant provisions, including delaying certain payroll tax payments and estimated income tax payments that we expect to defer to future periods. Accordingly, the Company deferred social security payments of approximately $1.6 million through December 31, 2020. Fifty percent of this amount is required to be paid by December 31, 2021 and the remaining balance 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

Sales

Sales for the three-month period ended June 30, 2021 increased approximately 18.8% to $50.7 million from sales of $42.6 million for the same period in 2020 (first full period of the COVID-19 pandemic). The increase in sales is primarily due to increases in sales to customers in the Automotive, Consumer, and Aerospace & Defense markets of 146.0%, 88.2%, and 40.7% respectively. Sales to customers in the Medical market increased 3.3%.

Sales for the six-month period ended June 30, 2021 increased approximately 9.2% to $99.3 million from sales of $90.9 million for the same period in 2020. The increase in sales is primarily due to increases in sales to customers in the Automotive, Consumer, and Aerospace & Defense markets of 35.7%, 74.4%, and 50.1% respectively, partially offset by a decrease in sales to customers in the Medical market of 4.0% due to the deferral of elective medical procedures.

Gross Profit

Gross profit as a percentage of sales ("gross margin") increased to 26.5% for the three-month period ended June 30, 2021, from 23.3% for the same period in 2020. As a percentage of sales, material and labor costs collectively increased 1.0%, while overhead decreased 4.1%. The increase in collective material and labor costs as a percentage of sales was primarily due to increases in raw material costs and an unfavorable change in mix. The decrease in overhead as a percentage of sales was primarily due to fixed overhead costs measured against increased sales, and the increased costs incurred in the second quarter of 2020 in response to COVID-19.

Gross profit as a percentage of sales ("gross margin") increased to 26.2% for the six-month period ended June 30, 2021, from 25.0% for the same period in 2020. As a percentage of sales, material and labor costs collectively increased 0.8%, while overhead decreased 2.0%. The increase in collective material and labor costs as a percentage of sales was primarily due to increases in raw material costs and an unfavorable change in mix. The decrease in overhead as a percentage of sales was primarily due to fixed overhead costs measured against increased sales, and the increased costs incurred in the second quarter of 2020 in response to COVID-19.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses ("SG&A") increased approximately 8.4% to $7.2 million for the three-month period ended June 30, 2021, from $6.7 million for the same period in 2020, primarily due to increases in discretionary compensation and company-wide travel and entertainment during the second quarter of 2021. As a percentage of sales, SG&A decreased to 14.3% for the three-month period ended June 30, 2021, from 15.6% for the same three-month period in 2020. The decrease in SG&A as a percentage of sales for the three-month period ended June 30, 2021 was primarily due to increased sales.

SG&A increased slightly to $14.5 million for the six-month period ended June 30, 2021, from $14.4 million for the same period in 2020. As a percentage of sales, SG&A decreased to 14.6% for the three-month period ended June

30, 2021, from 15.9% for the same three-month period in 2020. The decrease in SG&A as a percentage of sales for the six-month period ended June 30, 2021 was primarily due to increased sales.

Interest Income and Expense

Net interest income was approximately $21 thousand for the three-month period ended June 30, 2021, compared to net interest expense of approximately $33 thousand for the same period in 2020. The increase in net interest income for the three-month period ended June 30, 2021 was primarily due to interest received from the federal government related to income tax refunds.

Net interest income was approximately $5 thousand for the six-month period ended June 30, 2021, compared to net interest expense of $49 thousand in the same period of 2020. The increase in net interest income for the six-month period ended June 30, 2021 was primarily due to interest received from the federal government related to income tax refunds.

Other (Income) Expense

Other expense was approximately $4 thousand and $35 thousand for the three-month periods ended June 30, 2021 and 2020, respectively, and other income was approximately $7 thousand compared to other expense of approximately $362 thousand for the six-month periods ended June 30, 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, offset by net cash settlement amounts related to the swap.

Income Taxes

The Company recorded tax expense of approximately 24.2% and 20.8% of income before income tax expense, respectively, for each of the three-month periods ended June 30, 2021 and 2020. The increase in the effective tax rate for the current period as compared to the prior period was largely due to lower discrete income tax benefits from share-based compensation in the three months ended June 30, 2021 than in the comparable period.

The Company recorded tax expense of approximately 22.9% and 18.9% of income before income tax expense, respectively, for each of the six-month periods ended June 30, 2021 and 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 in the six months ended June 30, 2021 than in the comparable period. 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 six-month period ended June 30, 2021 was approximately $9.9 million and was primarily a result of net income generated of approximately $8.9 million, depreciation and amortization of approximately $4.2 million, share-based compensation of approximately $1.1 million, an increase in deferred taxes of approximately $0.4 million, an increase in accounts payable of approximately $4.0 million due to the timing of vendor payments in the ordinary course of business, and an increase in accrued expenses of approximately $0.3 million. These cash inflows and adjustments to income were partially offset by an increase in accounts receivable of approximately $4.8 million due to higher sales in the last two months of the second quarter of 2021 as compared to the same period in the fourth quarter of 2020, an increase in inventory of approximately $2.5 million due to restocking to historical levels, an increase in prepaid expenses of approximately $0.4 million, an increase in refundable income taxes of approximately $0.9 million, an increase in other assets of approximately $0.2 million, and a decrease in other long-term liabilities of approximately $0.2 million.

Net cash used in investing activities during the six-month period ended June 30, 2021 was approximately $3.3 million and was primarily the result of additions of manufacturing machinery and equipment across the Company.

Net cash used in financing activities was approximately $0.6 million during the six-month period ended June 30, 2021, resulting primarily from payments of statutory withholding for stock options exercised and restricted stock units vested.

Outstanding and Available Debt

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

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

The First Amendment amended the Restated Credit Agreement by (i) extending the scheduled maturity date from February 1, 2023 to December 31, 2025, and (ii) creating procedures and guidelines for establishing a successor benchmark rate if LIBOR ceases to be available during the term of the revolving credit facility. The Restated Credit Agreement called for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank’s prime rate less a margin that ranges from 0.25% to zero. The First Amendment calls for interest of LIBOR plus a margin that ranges from 1.25% to 1.75% or, at the discretion of the Company, the bank’s prime rate plus a margin that ranges from zero to 0.25%. In both cases the applicable margin remains dependent upon Company performance. The First Amendment also added certain representations and covenants concerning compliance by the Company with legal requirements.

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

Under the Restated Credit Agreement, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Restated Credit Agreement contains other covenants customary for transactions of this type, including restrictions on certain payments, permitted indebtedness and permitted investments. As of June 30, 2021 and December 31, 2020 there were no amounts outstanding; the applicable interest rate was approximately 1.09%, and the Company was in compliance with all financial covenants under the Restated Credit Agreement. As of June 30, 2021 and December 31, 2020, there were $0.7 million in standby letters of credit outstanding, drawable as a financial guarantee on worker’s compensation insurance policies.

Derivative Financial Instruments

The Company used interest-rate-related derivative instruments to manage its exposure related to changes in interest rates on 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, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, 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 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 expose the Company to variability in interest payments due to changes in interest rates. The Company believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, in connection with the term loan under the Amended and Restated Credit Agreement, the Company entered into a $20 million, 5-year interest rate swap agreement under which the Company receives three-month LIBOR plus the applicable margin and pays a 2.7% fixed rate plus the applicable margin. The swap agreement was established to modify the Company’s interest rate exposure by converting the interest on the term loan from a variable rate to a fixed rate to hedge against the possibility of rising interest rates during the term of the loan. As the Company repaid its term loan in full, the swap agreement no longer serves this purpose and may be canceled by the Company prior to its expiration date. The notional amount was approximately $10 million at June 30, 2021. The fair value of the swap as of June 30, 2021 and December 31, 2020 was approximately $(321) thousand and $(465) thousand, respectively, and is included in other liabilities on the condensed consolidated balance sheets. Changes in the fair value and net cash settlement amounts related to the swap are recorded in other expense on the condensed consolidated statements of income and resulted in income of $64 thousand and expense of $144 thousand, respectively, during the three- and six-month periods ended June 30, 2021. In the same periods in 2020, change in the fair value of the swap resulted in income of $8 thousand and expense of $292 thousand, respectively. As the Company has paid the remaining balance of the term loan in its entirety, there is no longer underlying debt to hedge against with the swap. The changes in the fair value of the swap will continue to be accounted for as a financial instrument until the sooner of the time that the Company elects to cancel it or until its maturity.

Future Liquidity

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service its contractual obligations. The Company's principal sources of funds are its operations and its amended and restated credit facility. The Company generated cash of approximately $9.9 million in operations during the six months ended June 30, 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 draws on the revolving credit facility are possible. Further, the continued economic uncertainty resulting from the COVID-19 pandemic could affect the Company's long-term ability to access the public markets and obtain necessary capital in order to properly capitalize and continue operations.

Throughout fiscal 2021, the Company plans to continue to add capacity to enhance operating efficiencies in its manufacturing plants. The Company may consider additional acquisitions of companies, technologies, or products that are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash expected to be generated from operations, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through the next twelve 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. The Company did not repurchase any shares of its common stock under this program in the first six months of 2021. At June 30, 2021 approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

Commitments and Contractual Obligations

There have been no material changes outside the ordinary course of business to our contractual obligations and commitments, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks as previously disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 4: CONTROLS AND PROCEDURES

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

An evaluation was also performed under the supervision and with the participation of our management, including the Company's Chief Executive Officer and Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. That evaluation did not identify any change in the Company's internal control over financial reporting that occurred during our latest fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

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.

ITEM 1A: RISK FACTORS

The Company faces a number of uncertainties and risks that are difficult to predict and many of which are outside of the Company's control. For a detailed discussion of the risks that affect our business, please refer to Part I, Item IA, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. There have been no material changes from the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer's 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. The Company did not repurchase any shares of its common stock under this program in the first six months of 2021. Through June 30, 2021, the Company had repurchased a total of 29,559 shares of its common stock under this program at a cost of approximately $587 thousand. At June 30, 2021, approximately $9.4 million was available for future repurchases of the Company's common stock under this authorization.

ITEM 6: EXHIBITS

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.*
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.*
32.1	Certifications pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	Inline XBRL Instance Document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

---

* Filed herewith.
** Furnished herewith.
# Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UFP TECHNOLOGIES, INC.

Date: August 6, 2021

By: /s/ R. Jeffrey Bailly
R. Jeffrey Bailly
Chairman, Chief Executive Officer,
President, and Director
(Principal Executive Officer)

Date: August 6, 2021

By: /s/ Ronald J. Lataille
Ronald J. Lataille
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, R. Jeffrey Bailly, President and Chief Executive Officer of UFP Technologies, Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q of UFP Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021

/s/ R. Jeffrey Bailly
R. Jeffrey Bailly
Chairman, Chief Executive Officer, President, and Director
(Principal Executive Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ronald J. Lataille, Chief Financial Officer of UFP Technologies, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of UFP Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021

/s/ Ronald J. Lataille
Ronald J. Lataille
Chief Financial Officer
(Principal Financial Officer)

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officers of UFP Technologies, Inc., a Delaware corporation (the “Company”) do hereby certify that, to the best of such officers’ knowledge and belief, that:

(1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: August 6, 2021

/s/ R. Jeffrey Bailly
R. Jeffrey Bailly
Chairman, Chief Executive Officer,
President, and Director
(Principal Executive Officer)

Date: August 6, 2021

/s/ Ronald J. Lataille
Ronald J. Lataille
Chief Financial Officer
(Principal Financial Officer)

A signed original of these written statements required by Section 906 has been provided to UFP Technologies, Inc. and will be retained by UFP Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.