

UFP TECHNOLOGIES INC
Form 10-Q
May 10, 2013
[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended MARCH 31, 2013

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.

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-2314970

(IRS Employer Identification No.)

172 East Main Street, Georgetown, Massachusetts 01833, 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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ; No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ; No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

[Do not check if a smaller reporting company]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ; No

6,796,959 shares of registrant's Common Stock, \$.01 par value, were outstanding as of May 2, 2013.

Table of Contents

UFP Technologies, Inc.

Index

	Page
<u>PART I - FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2013, and March 31, 2012 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013, and March 31, 2012 (unaudited)</u>	5
<u>Notes to Interim Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	14
<u>Item 4. Controls and Procedures</u>	14
<u>PART II - OTHER INFORMATION</u>	14
<u>Item 1A. Risk Factors</u>	14
<u>Item 6. Exhibits</u>	14
<u>SIGNATURES / EXHIBIT INDEX</u>	15
Exhibits	17

Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS****UFP Technologies, Inc.****Condensed Consolidated Balance Sheets**

	31-Mar-13 (unaudited)	31-Dec-12
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,941,697	\$ 33,479,519
Receivables, net	18,514,136	17,835,902
Inventories	10,530,625	9,695,060
Prepaid expenses	1,540,282	653,916
Refundable income taxes	936,908	1,713,687
Deferred income taxes	1,120,865	1,115,959
Total current assets	64,584,513	64,494,043
Property, plant, and equipment	60,820,860	59,569,202
Less accumulated depreciation and amortization	(37,090,839)	(36,250,906)
Net property, plant, and equipment	23,730,021	23,318,296
Goodwill	7,038,631	7,038,631
Intangible assets, net	1,950,288	2,083,941
Other assets	1,764,512	1,682,529
Total assets	\$ 99,067,965	\$ 98,617,440
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	4,684,644	\$ 4,088,003
Accrued expenses	5,362,025	7,592,842
Current installments of long-term debt	1,543,773	1,550,190
Total current liabilities	11,590,442	13,231,035
Long-term debt, excluding current installments	8,514,314	8,313,709
Deferred income taxes	1,591,004	1,589,654
Retirement and other liabilities	2,297,006	2,222,238
Total liabilities	23,992,766	25,356,636
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, \$.01 par value. Authorized 20,000,000 shares; issued and outstanding 6,796,959 at March 31, 2013, and 6,749,913 at December 31, 2012	67,970	67,499
Additional paid-in capital	19,022,615	19,238,934
Retained earnings	55,984,614	53,954,371
Total UFP Technologies, Inc. stockholders equity	75,075,199	73,260,804
Total liabilities and stockholders equity	\$ 99,067,965	\$ 98,617,440

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

Table of Contents

UFP Technologies, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended	
	31-Mar-2013	31-Mar-2012
Net sales	\$ 33,697,014	\$ 31,952,223
Cost of sales	24,794,808	22,750,861
Gross profit	8,902,206	9,201,362
Selling, general & administrative expenses	5,945,949	5,518,525
Gain on sale of fixed assets		(5,463)
Operating income	2,956,257	3,688,300
Interest expense, net	40,500	15,508
Other income (expenses)		2,058
Income before income tax expense	2,915,757	3,670,734
Income tax expense	885,514	1,322,000
Net income	2,030,243	2,348,734
<i>Net income per share</i>		
Basic	\$ 0.30	\$ 0.36
Diluted	\$ 0.29	\$ 0.33
<i>Weighted average common shares outstanding:</i>		
Basic	6,768,408	6,588,367
Diluted	7,087,637	7,030,197

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

Table of Contents

UFP Technologies, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended	
	31-Mar-2013	31-Mar-2012
Cash flows from operating activities:		
Net income	\$ 2,030,243	\$ 2,348,734
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	973,586	681,449
Gain on sale of fixed assets		(5,463)
Share-based compensation	179,340	186,901
Excess tax benefit on share-based compensation		(276,596)
Deferred income taxes	(3,556)	58,450
Changes in operating assets and liabilities:		
Receivables, net	(678,234)	(769,707)
Inventories	(835,565)	(307,718)
Taxes receivable	776,779	676,618
Prepaid expenses	(886,366)	(391,291)
Accounts payable	596,641	611,358
Accrued taxes and other expenses	(2,030,816)	(820,443)
Retirement and other liabilities	74,768	205,323
Other assets	(81,983)	(541,299)
Net cash provided by operating activities	114,837	1,656,316
Cash flows from investing activities:		
Additions to property, plant, and equipment	(1,251,658)	(2,309,282)
Holdback payment related to the acquisition of PAC Foam	(200,000)	
Proceeds from sale of fixed assets		5,463
Redemption of cash value life insurance		131,621
Net cash used in investing activities	(1,451,658)	(2,172,198)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	579,650	
Principal repayments of long-term debt	(385,462)	(145,165)
Proceeds from exercise of stock options, net of attestation	30,975	34,088
Excess tax benefit on share-based compensation		276,596
Payment of statutory withholdings for stock options exercised and restricted stock units vested	(426,164)	(672,284)
Distribution to United Development Company Limited (non-controlling interests)		(1,209,732)
Net cash used in financing activities	(201,001)	(1,716,497)
Net decrease in cash and cash equivalents	(1,537,822)	(2,232,379)
Cash and cash equivalents at beginning of period	33,479,519	29,848,798
Cash and cash equivalents at end of period	\$ 31,941,697	\$ 27,616,419

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

Table of Contents

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, 2012, included in the Company's 2012 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

The condensed consolidated balance sheet as of March 31, 2013, the condensed consolidated statements of income for the three-month period ended March 31, 2013, and the condensed consolidated statements of cash flows for the three-month period ended March 31, 2013, are unaudited but, in the opinion of management, include all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation of results for these interim periods.

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-month period ended March 31, 2013, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2013.

(2) Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows:

	Three Months Ended	
	31-Mar-13	31-Mar-12
Interest	\$ 39,358	\$ 23,008
Income taxes, net of refunds	\$ 114,759	\$ 242,336

During the three-month periods ended March 31, 2013, and 2012, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock (cashless exercises) totaling \$0 and \$46,620, respectively.

(3) Fair Value Accounting

The Company has other financial instruments, such as accounts receivable, accounts payable, and accrued expenses, which 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.

(4) Share-Based Compensation

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).

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

Table of Contents

The Company issues share-based payments through several plans that are described in detail in the notes to the consolidated financial statements for the year ended December 31, 2012. The compensation cost charged against income for those plans is as follows:

	Three Months Ended	
	31-Mar-2013	31-Mar-2012
Cost of sales	\$	\$
Selling, general & administrative expense	179,340	186,901
Total share-based compensation expense	\$ 179,340	\$ 186,901

The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately \$55,000 for each of the three-month periods ended March 31, 2013, and 2012.

The following is a summary of stock option activity under all plans for the three-month period ended March 31, 2013:

	Shares Under Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2012	493,888	\$ 5.47	
Granted	60,000	18.85	
Exercised	(7,500)	4.13	
Cancelled or expired			
Outstanding at March 31, 2013	546,388	6.96	\$ 6,225,706
Options exercisable at March 31, 2013	470,138	5.28	\$ 6,116,693
Vested and expected to vest at March 31, 2013	546,388	6.96	\$ 6,225,706

On March 31, 2013, the Company granted to certain employees options for the purchase of 60,000 shares of its common stock at that day's closing price of \$18.85. The compensation expense was determined as the fair value of the options using the Black Scholes option pricing model based on the following assumptions:

Expected volatility	40.0%
Expected dividends	none
Risk free interest rate	0.4%
Expected term	3.8 years

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 rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The weighted average grant date fair value of options granted during the three-month period ended March 31, 2013, was \$5.77.

During the three-month periods ended March 31, 2013, and 2012, the total intrinsic value of all options exercised (i.e., the difference between the market price on the exercise date and the price paid by the employees to exercise the options) was \$114,477 and \$2,028,138, respectively,

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

and the total amount of consideration received from the exercised options was \$30,975, and \$80,708, respectively.

During the three-month periods ended March 31, 2013, and 2012, the Company recognized compensation expenses related to stock options granted to directors and employees of \$25,396 and \$18,186, respectively.

On February 18, 2013, the Company's Compensation Committee approved the award of \$400,000 payable in shares of common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Incentive Plan. The shares will be issued on or before December 31, 2013. The Company recorded compensation expense associated with the award of \$100,000 during the three-month period ended March 31, 2013. In the three-month period ended March 31, 2012, the Company recorded \$75,000 of compensation expense for a similar award.

Table of Contents

The following table summarizes information about Restricted Stock Units (RSUs) activity during the three-month period ended March 31, 2013:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Unvested at December 31, 2012	108,866	\$ 8.77
Awarded	10,600	19.97
Shares vested	(61,635)	6.67
Forfeited / cancelled	(5,679)	16.17
Unvested at March 31, 2013	52,152	\$ 13.59

During the three-month periods ended March 31, 2013, and 2012, the Company recorded compensation expense related to RSUs of \$53,944 and \$93,715, respectively.

At its discretion, the Company allows option and RSU holders to surrender previously owned common stock in lieu of paying the minimum statutory withholding taxes due upon the exercise of options or the vesting of RSUs. During the three-month periods ended March 31, 2013, and 2012, 22,089 and 39,707 shares were surrendered at an average market price of \$19.29 and \$16.93, respectively.

March 31, 2013, unrecognized compensation expense of \$1,278,676 is expected to be recognized over a weighted average period of 1.6 years.

(5) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, and consist of the following at the stated dates:

	31-Mar-2013	31-Dec-2012
Raw materials	\$ 6,662,512	\$ 6,260,354
Work in process	882,020	675,228
Finished goods	2,986,093	2,759,478
Total inventory	\$ 10,530,625	\$ 9,695,060

(6) Preferred Stock

On March 18, 2009, the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock, par value \$0.01 per share, to the stockholders of record on March 20, 2009. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share (the Preferred Share) of the Company, at a price of \$25 per one one-thousandth of a Preferred Share subject to adjustment and the terms of the Rights Agreement. The Rights expire on March 19, 2019.

(7) 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 of common shares and dilutive common stock equivalent shares outstanding during each period.

Table of Contents

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