

UFP TECHNOLOGIES INC
Form 10-Q
May 12, 2011
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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, 2011**

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)

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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

6,464,948 shares of registrant's Common Stock, \$.01 par value, were outstanding as of May 4, 2011.

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	31-Mar-11 (unaudited)	31-Dec-10 (audited)
Assets		
Current assets:		
Cash and cash equivalents (UDT: \$1,114,356 and \$277,698, respectively)	\$ 25,243,853	\$ 24,433,761
Receivables, net	15,863,486	14,633,375
Inventories, net	9,100,778	8,044,336
Prepaid expenses	1,031,554	1,035,301
Refundable income taxes	1,147,404	1,414,026
Deferred income taxes	1,201,723	1,208,848
Total current assets	53,588,798	50,769,647
Property, plant, and equipment (UDT: \$2,099,960 and \$2,756,792, respectively)	44,959,506	45,457,275
Less accumulated depreciation and amortization (UDT: \$1,388,148 and \$1,640,818, respectively)	(33,152,465)	(32,882,135)
Net property, plant, and equipment	11,807,041	12,575,140
Goodwill	6,481,037	6,481,037
Other assets	1,993,402	1,983,204
Total assets	\$ 73,870,278	\$ 71,809,028
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 5,728,828	\$ 5,168,589
Accrued taxes and other expenses (UDT: \$15,900 and \$12,900, respectively)	5,751,656	6,679,381
Current installments of long-term debt (UDT: \$36,760 and \$39,248, respectively)	649,767	654,331
Total current liabilities	12,130,251	12,502,301
Long-term debt, excluding current installments (UDT: \$620,833 and \$627,629, respectively)	6,695,097	6,846,947
Deferred income taxes	871,275	880,775
Retirement and other liabilities	1,422,685	1,352,529
Total liabilities	21,119,308	21,582,552
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 6,464,948 shares at March 31, 2011, and 6,338,829 shares at December 31, 2010.	64,649	63,388
Additional paid-in capital	16,919,262	16,924,197
Retained earnings	34,917,787	32,712,904
Total UFP Technologies, Inc. stockholders equity	51,901,698	49,700,489
Non-controlling interests	849,272	525,987
Total stockholders equity	52,750,970	50,226,476

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Total liabilities and stockholders equity	\$	73,870,278	\$	71,809,028
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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UFP Technologies, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended	
	31-Mar-2011	31-Mar-2010
Net sales	\$ 31,503,588	\$ 28,700,466
Cost of sales	22,702,040	21,243,212
Gross profit	8,801,548	7,457,254
Selling, general & administrative expenses	5,725,544	5,011,985
Gain on sale of fixed assets	(833,792)	
Operating income	3,909,796	2,445,269
Interest income (expense), net	2,430	(35,187)
Income before income tax expense	3,912,226	2,410,082
Income tax expense	1,279,058	887,637
Net income from consolidated operations	2,633,168	1,522,445
Net income attributable to noncontrolling interests	(428,285)	(11,063)
Net income attributable to UFP Technologies, Inc.	\$ 2,204,883	\$ 1,511,382
<i>Net income per share attributable to UFP Technologies, Inc.:</i>		
Basic	\$ 0.34	\$ 0.25
Diluted	\$ 0.32	\$ 0.23
<i>Weighted average common shares outstanding:</i>		
Basic	6,393,521	5,996,902
Diluted	6,969,361	6,641,608

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

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UFP Technologies, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended	
	31-Mar-2011	31-Mar-2010
Cash flows from operating activities:		
Net income from consolidated operations	\$ 2,633,168	\$ 1,522,445
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	692,438	811,518
Gain on sale of fixed assets	(833,792)	
Stock issued in lieu of cash compensation	55,000	79,248
Share-based compensation	249,335	194,838
Excess tax benefit on share-based compensation	(296,658)	(325,975)
Deferred income taxes	(2,375)	(17,531)
Changes in operating assets and liabilities:		
Receivables, net	(1,230,111)	1,002,053
Inventories, net	(1,056,442)	149,551
Taxes receivable	266,622	
Prepaid expenses	3,747	(443,276)
Accounts payable	560,239	590,931
Accrued taxes and other expenses	(631,067)	(1,148,150)
Retirement and other liabilities	70,156	170,214
Other assets	(65,735)	(146,970)
Net cash provided by operating activities	414,525	2,438,896
Cash flows from investing activities:		
Additions to property, plant, and equipment	(252,704)	(205,723)
Proceeds from sale of fixed assets	1,217,694	
Net cash provided (used in) investing activities	964,990	(205,723)
Cash flows from financing activities:		
Principal repayments of long-term debt	(156,414)	(154,871)
Proceeds from exercise of stock options, net of attestations	34,215	142,342
Payment of statutory withholdings for stock options exercised and restricted stock units vested	(638,882)	(304,403)
Distribution to United Development Company Limited (non-controlling interests)	(105,000)	(105,000)
Excess tax benefit on share-based compensation	296,658	325,975
Net cash used in financing activities	(569,423)	(95,957)
Net increase in cash and cash equivalents	810,092	2,137,216
Cash and cash equivalents at beginning of period	24,433,761	14,998,514
Cash and cash equivalents at end of period	\$ 25,243,853	\$ 17,135,730

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

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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, 2010, included in the Company's 2010 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

The condensed consolidated balance sheet as of March 31, 2011, the condensed consolidated statements of income for the three-month periods ended March 31, 2011, and 2010, and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2011, and 2010, 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, 2011, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2011.

(2) New Accounting Pronouncements

In January 2010, the FASB amended previously released guidance on fair value measurements and disclosures. The amendment requires disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and also requires more detailed disclosure about the activity within Level 3 fair value measurements. The required disclosures regarding transfers into and out of Level 1 and Level 2 fair value measurements were effective for the Company as of January 1, 2010, and did not have a significant impact on the Company's disclosures. The amendment's requirements related to Level 3 disclosures were effective for the Company as of January 1, 2011. This guidance affects disclosures only and have no impact on the Company's condensed consolidated financial statements.

(3) Supplemental Cash Flow Information

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Cash paid for interest and income taxes is as follows:

	Three Months Ended	
	31-Mar-11	31-Mar-10
Interest	\$ 28,250	\$ 58,649
Income taxes, net of refunds	\$ (144,167)	\$ 808,058

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During the three-month periods ended March 31, 2011, and 2010, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock (cashless exercises) totaling \$93,879 and \$343,750, respectively.

(4) Investment in Affiliated Partnership

The Company has a 26.32% ownership interest in a realty limited partnership, United Development Company Limited (UDT). The Company has consolidated the financial statements of UDT for all periods presented because it has determined that UDT is a VIE, and the Company is the primary beneficiary. UDT owns a building, which is leased to the Company. The lease payments from the Company account for 100% of UDT's revenue. Therefore, the Company believes it has the power to direct the activities of UDT that most significantly impact the entity's economic performance, and the obligation to absorb losses of UDT or the right to receive benefits from UDT that could potentially be significant to UDT. In addition to the lease arrangement, the Company's management provides management services to UDT in certain situations. The creditors of UDT have no recourse to the general credit of the Company.

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

	31-Mar-2011		31-Dec-2010
Cash	\$ 1,114,356	\$	277,698
Net property, plant, and equipment	711,812	\$	1,115,974
Accrued expenses	15,900	\$	12,900
Current and long-term debt	657,593	\$	666,877

(5) Fair Value Accounting

Financial instruments recorded at fair value in the condensed consolidated balance sheets, or disclosed at fair value in the footnotes, are categorized below based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels defined by ASC 820, *Fair Value Measurements and Disclosures*, which are 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.

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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.

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The Company's assets and liabilities that are measured at fair value consist of money market funds and certificates of deposit, both considered cash equivalents, which are categorized by the levels discussed above and in the table below:

31-Mar-2011	Level 1	Level 2	Level 3	Total
Money market funds	\$ 9,631,000	\$	\$	\$ 9,631,000
Certificates of deposit		4,500,000		\$ 4,500,000
Total	\$ 9,631,000	\$ 4,500,000	\$	\$ 14,131,000

31-Dec-2010	Level 1	Level 2	Level 3	Total
Money market funds	\$ 9,500,000	\$	\$	\$ 9,500,000
Certificates of deposit		4,500,000		\$ 4,500,000
Total	\$ 9,500,000	\$ 4,500,000	\$	\$ 14,000,000

As of March 31, 2011, the Company does not have any significant non-recurring measurements of nonfinancial assets and nonfinancial liabilities. The Company may have additional disclosure requirements in the event an impairment of the Company's nonfinancial assets occurs in a future period.

Fair Value of Other Financial Instruments

The Company has other financial instruments, such as accounts receivable, accounts payable and accrued taxes and other 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 Company's current incremental borrowing rate.

(6) 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).

The Company issues share-based payments through several plans, which are described in detail in the notes to the consolidated financial statements for the year ended December 31, 2010. The compensation cost that has been charged against income for those plans is as follows:

	Three Months Ended	
	31-Mar-2011	31-Mar-2010
Cost of sales	\$	\$
Selling, general & administrative expense	249,335	194,838
Total share-based compensation expense	\$ 249,335	\$ 194,838

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The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately \$89,000 and \$69,000 for the three-month periods ended March 31, 2011, and 2010, respectively.

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The following is a summary of stock option activity under all plans for the three-month period ended March 31, 2011:

	Shares Under Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2010	764,496		