

UFP TECHNOLOGIES INC
Form 10-Q
May 08, 2015
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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, 2015**

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.

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(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 x; No o

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 x; No o

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	<input type="radio"/>
Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/> [Do not check if a smaller reporting company]
Smaller reporting company	<input type="radio"/>

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

7,108,094 shares of registrant's Common Stock, \$0.01 par value, were outstanding as of May 4, 2015.

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UFP Technologies, Inc.

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

(In thousands, except share data)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 24,392	\$ 34,052
Receivables, less allowance for doubtful accounts of \$476 at March 31, 2015 and \$502 at December 31, 2014	18,223	16,470
Inventories	12,925	12,893
Prepaid expenses	2,060	664
Refundable income taxes	2,579	3,192
Deferred income taxes	1,150	1,142
Total current assets	61,329	68,413
Property, plant and equipment	84,178	75,823
Less accumulated depreciation and amortization	(41,887)	(40,980)
Net property, plant and equipment	42,291	34,843
Goodwill	7,322	7,322
Intangible assets, net	874	953
Other assets	2,210	2,159
Total assets	\$ 114,026	\$ 113,690
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 4,336	\$ 5,398
Accrued expenses	4,502	5,222
Current installments of long-term debt	998	993
Total current liabilities	9,836	11,613
Long-term debt, excluding current installments	1,621	1,873
Deferred income taxes	3,692	3,588
Retirement and other liabilities	1,790	1,624
Total liabilities	16,939	18,698
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$.01 par value. Authorized 1,000,000 shares; zero shares issued or outstanding		
Common stock, \$.01 par value. Authorized 20,000,000 shares; issued and outstanding 7,108,094 at March 31, 2015 and 7,068,815 at December 31, 2014	71	71
Additional paid-in capital	22,574	22,132
Retained earnings	74,442	72,789

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Total stockholders' equity		97,087		94,992
Total liabilities and stockholders' equity	\$	114,026	\$	113,690

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

(In thousands, except per share data)

(Unaudited)

	Three Months Ended			
	March 31,			
	2015		2014	
Net sales	\$	33,977	\$	34,609
Cost of sales		25,339		25,432
Gross profit		8,638		9,177
Selling, general & administrative expenses		6,024		5,892
Restructuring costs		78		90
Gain on sale of fixed assets		(31)		
Operating income		2,567		3,195
Interest expense, net		24		22
Income before income tax expense		2,543		3,173
Income tax expense		890		1,111
Net income	\$	1,653	\$	2,062
<i>Net income per share:</i>				
Basic	\$	0.23	\$	0.30
Diluted	\$	0.23	\$	0.29
<i>Weighted average common shares outstanding:</i>				
Basic		7,076		6,972
Diluted		7,193		7,148

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**

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 1,653	\$ 2,062
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,153	1,131
Gain on sale of fixed assets	(31)	
Share-based compensation	210	265
Excess tax benefit on share-based compensation	(183)	(563)
Deferred income taxes	96	(121)
Changes in operating assets and liabilities:		
Receivables, net	(1,753)	(1,118)
Inventories	(32)	(1,129)
Prepaid expenses	(1,396)	(1,372)
Refundable income taxes	796	1,151
Other assets	(51)	(51)
Accounts payable	(1,062)	1,567
Accrued taxes and other expenses	(720)	(2,548)
Retirement and other liabilities	166	(280)
Net cash used in operating activities	(1,154)	(1,006)
Cash flows from investing activities:		
Additions to property, plant, and equipment	(8,522)	(1,377)
Proceeds from sale of fixed assets	31	
Net cash used in investing activities	(8,491)	(1,377)
Cash flows from financing activities:		
Principal repayments of long-term debt	(247)	(243)
Proceeds from exercise of stock options, net of attestation	128	81
Excess tax benefit on share-based compensation	183	563
Payment of statutory withholdings for stock options exercised and restricted stock units vested	(79)	(701)
Net cash used in financing activities	(15)	(300)
Net decrease in cash and cash equivalents	(9,660)	(2,683)
Cash and cash equivalents at beginning of period	34,052	37,303
Cash and cash equivalents at end of period	\$ 24,392	\$ 34,620

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, 2014, included in the Company's 2014 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

The condensed consolidated balance sheet as of March 31, 2015, the condensed consolidated statements of income for the three-month periods ended March 31, 2015 and 2014, and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2015 and 2014 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, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2015.

Revisions

Certain revisions have been made to the Condensed Consolidated Statement of Income for the three-month period ended March 31, 2014 to conform to the current year presentation. These revisions relate to the classification of certain restructuring, rent and indirect labor items. The impact on the Condensed Consolidated Statement of Income for the three-month period ended March 31, 2014 was a decrease to costs of sales, an increase to selling, general and administrative expenses and an increase in restructuring costs in the amounts of \$148,000, \$58,000 and \$90,000, respectively. These revisions had no impact on previously reported operating income, net income or cash flows and are deemed immaterial to the previously issued financial statements.

(2) Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows (in thousands):

	Three Months Ended March 31,			
	2015		2014	
Interest	\$	23	\$	31
Income taxes, net of refunds	\$	(1)	\$	80

During the three-month period ended March 31, 2014, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock (cashless exercises) totaling approximately \$203,000. No cashless exercises occurred during the three-month period ended March 31, 2015.

(3) Fair Value Accounting

The Company has 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.

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Share-based compensation cost 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, 2014. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Three Months Ended			
	March 31,		2014	
	2015		2014	
Total share-based compensation expense	\$	210	\$	265

Share-based compensation for the three-month period ended March 31, 2014, includes approximately \$5,000 representing the fair value of the Company's common stock granted during the period to the Board of Directors.

The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately \$58,000 and \$70,000 for the three-month periods ended March 31, 2015 and 2014, respectively.

The following is a summary of stock option activity under all plans for the three-month period ended March 31, 2015:

	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, 2014	340,107	\$ 12.84		
Granted				
Exercised	(32,258)	4.02		
Outstanding at March 31, 2015	307,849	\$ 13.76	3.90	\$ 2,844
Exercisable at March 31, 2015	240,350	\$ 11.73	4.04	\$ 2,691
Vested and expected to vest at March 31, 2015	307,849	\$ 13.76	3.90	\$ 2,844

The Company did not grant any stock options during the first quarter of 2015.

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During the three-month periods ended March 31, 2015 and 2014, 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 approximately \$600,000 and \$2.3 million, respectively, and the total amount of consideration received by the Company from the exercised options was approximately \$130,000 and \$284,000, respectively. At its discretion, the Company allows option holders to surrender previously owned common stock in lieu of paying the exercise price and withholding taxes. During the three-months ended March 31, 2015, there were no shares surrendered for this purpose. During the three-months ended March 31, 2014, 25,094 shares were surrendered at an average market price of \$25.84.

During the three-month periods ended March 31, 2015 and 2014, the Company recognized compensation expense related to stock options granted to directors and employees of approximately \$44,000 and \$94,000, respectively.

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On February 24, 2015, 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, 2015. During the three-month period ended March 31, 2015, the Company recorded compensation expense associated with the award of \$100,000. The Company recorded compensation expense of \$100,000 for the three-month period ended March 31, 2014 for a similar award.

The following table summarizes information about Restricted Stock Units (RSUs) activity during the three-month period ended March 31, 2015:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Unvested at December 31, 2014	35,088	\$ 17.87
Awarded	23,975	23.46
Shares vested	(10,426)	18.35
Unvested at March 31, 2015	48,637	\$ 19.13

During each of the three-month periods ended March 31, 2015 and 2014, the Company recorded compensation expense related to RSUs of approximately \$66,000.

At the Company's discretion, RSU holders are given the option to net-share settle to cover the required minimum withholding tax, and the remaining amount is converted into the equivalent number of common shares. During the three-month periods ended March 31, 2015 and 2014, 3,405 and 9,878 shares were surrendered at an average market price of \$23.15 and \$25.88, respectively.

As of March 31, 2015, the Company had approximately \$1.3 million of unrecognized compensation expense, which is expected to be recognized over a period of 4.0 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 (in thousands):

	March 31, 2015	December 31, 2014
Raw materials	\$ 7,271	\$ 7,145
Work in process	1,199	1,142
Finished goods	4,455	4,606
Total inventory	\$ 12,925	\$ 12,893

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

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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