UFP TECHNOLOGIES INC
Form 10-Q
November 09, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 SEPTEMBER 30, 2011

OR

o 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	**04-2314970**
(State or other jurisdiction of incorporation or organization)	(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 o	Accelerated filer o
Non accelerated filer o [Do not check if a smaller reporting company]	Smaller reporting company x

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

6,527,246 shares of registrant s Common Stock, $.01 par value, were outstanding as of November 1, 2011.

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UFP Technologies, Inc.

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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

UFP Technologies, Inc.

Condensed Consolidated Balance Sheets

		30-Sep-11 (unaudited)		31-Dec-10
Assets				
Current assets:				
Cash and cash equivalents (UDT: $266,226 and $277,698, respectively)	$	30,658,740	$	24,433,761
Receivables, net		15,115,047		14,633,375
Inventories, net		9,006,257		8,044,336
Prepaid expenses		773,147		1,035,301
Refundable income taxes		854,568		1,414,026
Deferred income taxes		1,187,473		1,208,848
Total current assets		57,595,232		50,769,647
Property, plant, and equipment (UDT: $2,099,960 and $2,756,792, respectively)		47,332,599		45,457,275
Less accumulated depreciation and amortization (UDT: $1,428,668 and $1,640,818, respectively)		(34,320,960)		(32,882,135)
Net property, plant, and equipment		13,011,639		12,575,140
Goodwill		6,481,037		6,481,037
Other assets		1,757,929		1,983,204
Total assets	$	78,845,837	$	71,809,028
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	5,657,023	$	5,168,589
Accrued taxes and other expenses (UDT: $27,901 and $12,900, respectively)		6,226,362		6,679,381
Current installments of long-term debt (UDT: $0 and $39,246, respectively)		580,661		654,331
Total current liabilities		12,464,046		12,502,301
Long-term debt, excluding current installments (UDT: $0 and $627,629, respectively)		5,783,823		6,846,947
Deferred income taxes		852,275		880,775
Retirement and other liabilities		1,294,612		1,352,529
Total liabilities		20,394,756		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 6,527,246 shares at September 30, 2011, and 6,338,829 shares at December 31, 2010.		65,272		63,388
Additional paid-in capital		17,660,838		16,924,197
Retained earnings		40,054,767		32,712,904
Total UFP Technologies, Inc. stockholders equity		57,780,877		49,700,489
Non-controlling interests		670,204		525,987
Total stockholders equity		58,451,081		50,226,476
Total liabilities and stockholders equity	$	78,845,837	$	71,809,028

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		Nine Months Ended	
	30-Sep-2011	**30-Sep-2010**	**30-Sep-2011**	**30-Sep-2010**
Net sales	$ 30,761,959	$ 30,467,998	$ 95,766,541	$ 89,125,959
Cost of sales	22,277,661	21,562,022	68,477,211	63,715,893
Gross profit	8,484,298	8,905,976	27,289,330	25,410,066
Selling, general & administrative expenses	5,219,840	5,102,787	16,628,156	15,502,129
Gain on sale of property, plant, and equipment			(833,792)	(12,000)
Operating income	3,264,458	3,803,189	11,494,966	9,919,937
Interest expense, net	(5,776)	(34,922)	(18,928)	(104,246)
Income before income tax expense	3,258,682	3,768,267	11,476,038	9,815,691
Income tax expense	819,079	1,388,873	3,700,776	3,616,507
Net income from consolidated operations	2,439,603	2,379,394	7,775,262	6,199,184
Net income attributable to noncontrolling interests	(4,415)	(14,554)	(433,399)	(41,346)
Net income attributable to UFP Technologies, Inc.	$ 2,435,188	$ 2,364,840	$ 7,341,863	$ 6,157,838
Net income per share attributable to UFP Technologies, Inc.:				
Basic	$ 0.37	$ 0.38	$ 1.14	$ 1.01
Diluted	$ 0.35	$ 0.35	$ 1.05	$ 0.92
Weighted average common shares outstanding:				
Basic	6,510,523	6,214,777	6,457,099	6,117,441
Diluted	6,999,224	6,784,650	6,985,332	6,727,859

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)

	Nine Months Ended 30-Sep-2011	Nine Months Ended 30-Sep-2010
Cash flows from operating activities:		
Net income from consolidated operations	$ 7,775,262	$ 6,199,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,981,775	2,393,690
Gain on sale of fixed assets	(833,792)	(12,000)
Stock issued in lieu of cash compensation	55,000	79,248
Share-based compensation	860,006	772,931
Excess tax benefit on share-based compensation	(419,452)	(495,611)
Deferred income taxes	(7,125)	(52,593)
Changes in operating assets and liabilities:		
Receivables, net	(481,672)	60,422
Inventories, net	(961,921)	(692,213)
Taxes receivable	559,458	
Prepaid expenses	262,154	(103,893)
Accounts payable	488,434	918,761
Accrued taxes and other expenses	(33,567)	(94,975)
Retirement and other liabilities	(57,917)	221,774
Other assets	61,396	(142,523)
Net cash provided by operating activities	9,248,039	9,052,202
Cash flows from investing activities:		
Additions to property, plant, and equipment	(2,638,297)	(1,449,600)
Proceeds from sale of fixed assets	1,217,694	12,000
Net cash used in investing activities	(1,420,603)	(1,437,600)
Cash flows from financing activities:		
Principal repayments of long-term debt	(1,136,794)	(466,947)
Proceeds from exercise of stock options, net of attestation	234,063	324,267
Excess tax benefit on share-based compensation	419,452	495,611
Payment of statutory withholdings for stock options exercised and restricted stock units vested	(829,995)	(485,511)
Distribution to United Development Company Limited (non-controlling interests)	(289,183)	(105,000)
Net cash used in financing activities	(1,602,457)	(237,580)
Net increase in cash and cash equivalents	6,224,979	7,377,022
Cash and cash equivalents at beginning of period	24,433,761	14,998,514
Cash and cash equivalents at end of period	$ 30,658,740	$ 22,375,536

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 September 30, 2011, the condensed consolidated statements of income for the three- and nine-month periods ended September 30, 2011, and 2010, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 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- and nine-month periods ended September 30, 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 May 2011, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRS* (ASU 2011-04), which amends Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. ASU 2011-04 improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The amended guidance changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements. Although ASU 2011-04 is not expected to have a significant effect on practice, it changes some fair value measurement principles and disclosure requirements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and must be applied prospectively. Early application is not permitted. We do not anticipate that the adoption of ASU 2011-04 will have a material impact on our financial position or the results of our operations.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* (ASU 2011-08), which amends ASC 350, *Intangibles Goodwill and Other*. Previous guidance under ASC 350 required an entity to test goodwill for impairment on at least an

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annual basis by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step 1). The amendments of ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC 350. The amendments of ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We do not anticipate that the adoption of ASU 2011-08 will have a material impact on our financial position or the results of our operations.

(3) Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows:

	Nine Months Ended	
	30-Sep-11	30-Sep-10
Interest	$ 19,957	$ 81,847
Income taxes, net of refunds	$ 2,856,998	$ 4,103,653

During the nine-month periods ended September 30, 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:

	30-Sep-2011	31-Dec-2010
Cash	$ 266,226	$ 277,698
Net property, plant, and equipment	671,292	1,115,974
Accrued expenses	27,901	12,900
Current and long-term debt		666,875

(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:

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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 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:

30-Sep-2011		**Level 1**		**Level 2**		**Level 3**		**Total**
Money market funds	$	9,695,085	$		$		$	9,695,085
Certificates of deposit				4,542,000				4,542,000
Total	$	9,695,085	$	4,542,000	$		$	14,237,085

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 September 30, 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

At the annual meeting of stockholders held on June 8, 2011, the stockholders voted to increase the maximum number of shares issuable under the 2003 Incentive Plan from 1,250,000 to 2,250,000.

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).

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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, 2010. The compensation cost charged against income for those plans is as follows:

[redacted]				
Cost of sales	$	$	$	$
Selling, general & administrative expense	228,647	202,307	860,006	772,931
Total share-based compensation expense	$ 228,647	$ 202,307	$ 860,006	$ 772,931

Share-based compensation for the nine-month period ended September 30, 2011, includes $59,958 of the Company s stock granted to the Board of Directors as part of their annual retainer. There were no shares issued in the same periods ended September 30, 2010.

The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately $71,000 and $72,000 for the three-month periods ended September 30, 2011, and 2010, respectively, and approximately $272,000 and $278,000 for the nine-month periods ended September 30, 2011, and 2010, respectively.

The following is a summary of stock option activity under all plans for the nine-month period ended September 30, 2011:

	Shares Under Options	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2010	764,496	$ 4.12	
Granted	13,205	16.17	
Exercised	(146,680)	2.24	
Cancelled or expired			
Outstanding at September 30, 2011	631,021	4.81	$ 6,077,970
Options exercisable at September 30, 2011	578,521	4.45	$ 5,785,432
Vested and expected to vest at September 30, 2011	631,021	4.81	$ 6,077,970

During the nine months ended September 30, 2011, and 2010, 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 $2,183,912 and $1,762,812, respectively, and the total amount of consideration received from the exercised options was $327,942 and $668,017, respectively.

During the three-month periods ended September 30, 2011, and 2010, the Company recognized compensation expenses related to stock options granted to directors and employees of $19,440 and $18,843, respectively. During the nine-month periods ended September 30, 2011, and 2010, the Company recognized compensation expenses related to stock options granted to directors and employees of $124,189 and $189,596, respectively.

On March 2, 2011, the Company s Compensation Committee approved the issuance of 25,000 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, 2011. The Company has recorded compensation expense of $106,251 and $318,753 during the three- and nine-month periods ended September 30, 2011, based on the grant date price of $16.93 at March 2, 2011.

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The following table summarizes information about Restricted Stock Units (RSUs) activity during the nine-month period ended September 30, 2011:

	Restricted Stock Units		Weighted Average Award Date Fair Value
Outstanding at December 31, 2010	251,694	$	5.80
Awarded	33,663		18.27
Shares vested	(86,706)		5.02
Forfeited / cancelled			
Outstanding at September 30, 2011	198,651		8.25

During the three- and nine-month periods ended September 30, 2011, the Company recorded compensation expense related to RSUs of $102,956 and $357,106 respectively. The Company recorded $135,339 and $438,958 for the same periods ended September 30, 2010.

At its discretion, the Company allows option and RSU holders to surrender previously owned common stock in lieu of paying the withholding taxes due upon the exercise of options or the vesting of RSUs. During the nine-month periods ended September 30, 2011, and 2010, 46,090 and 48,792 shares were surrendered at an average market price of $18.01 and $9.95, respectively.

It has been the Company s practice to allow executive officers to take a portion of their earned bonuses in the form of the Company s common stock. The value of the stock received by executive officers, measured at the closing price on the date of grant, was $55,000 and $79,248 for the nine-month periods ended September 30, 2011, and 2010, respectively.

(7) Inventories

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

		30-Sep-2011		31-Dec-2010
Raw materials	$	5,959,895	$	5,214,268
Work in process		1,023,466		695,421
Finished goods		2,707,599		2,570,135
Less reserves for obsolescense		(684,703)		(435,488)
Total inventory	$	9,006,257	$	8,044,336

(8) 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, on March 20, 2009, to the stockholders of record on that date. 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.

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(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 of common shares 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:

	Three Months Ended		Nine Months Ended	
	30-Sep-2011	30-Sep-2010	30-Sep-2011	30-Sep-2010
Weighted average common shares outstanding, basic	6,510,523	6,214,777	6,457,099	6,117,441
Weighted average common equivalent shares due to stock options and RSUs	488,701	569,873	528,233	610,418
Weighted average common shares outstanding, diluted	6,999,224	6,784,650	6,985,332	6,727,859

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 have been antidilutive. For both the three- and nine-month periods ended September 30, 2011, the number of stock awards excluded from the computation was zero. For both the three- and nine-month periods ended September 30, 2010, the number of stock awards excluded from the computation was 101,769.

(10) Segment Reporting

The Company is organized based on the nature of the products and services it offers. Under this structure, the Company produces products within two distinct segments: Engineered Packaging and Component Products. Within the Engineered Packaging segment, the Company primarily uses polyethylene and polyurethane foams, sheet plastics, and pulp fiber to provide customers with cushion packaging for their products. Within the Component Products segment, the Company primarily uses cross-linked polyethylene and technical urethane foams to provide customers in the automotive, athletic, leisure, and health and beauty industries with custom-designed products for numerous purposes.

The accounting policies of the segments are the same as those described in Note 1 to the consolidated financial statements contained in the Company s annual report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission. The Company evaluates the performance of its operating segments based on operating income.

Inter-segment transactions are uncommon and not material. Therefore, they have not been reflected separately in the financial table below. Revenues from customers outside of the United States are not material. One customer in the Component Products segment comprised 8.3% of the Company s consolidated revenues for the nine-month period ended September 30, 2011. All of the Company s assets are located in the United States.

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	Three Months Ended 9/30/11			Three Months Ended 9/30/10		
	Engineered Packaging	Component Products	Total UFPT	Engineered Packaging	Component Products	Total UFPT
Net sales	$ 10,905,820	$ 19,856,139	$ 30,761,959	$ 10,656,280	$ 19,811,718	$ 30,467,998
Operating income	461,936	2,802,522	$ 3,264,458	1,096,528	2,706,661	$ 3,803,189
Depreciation / amortization	243,140	335,142	$ 578,282	265,603	493,839	$ 759,442
Capital expenditures	970,247	663,794	$ 1,634,041	454,635	109,885	$ 564,520

[redacted]								
Net sales	$ 31,590,084	$ 64,176,457	$	$ 95,766,541	$ 29,786,859	$ 59,339,100	$	$ 89,125,959
Operating income	1,870,537	9,620,429		$ 11,490,966	2,323,329	7,584,608		$ 9,907,937
Total assets	19,981,754	28,205,343	30,658,740	$ 78,845,837	16,905,064	27,475,210	22,375,536	$ 66,755,810
Depreciation / amortization	924,368	1,057,407		$ 1,981,775	854,824	1,538,866		$ 2,393,690
Capital expenditures	1,680,918	957,379		$ 2,638,297	1,085,949	363,651	$	$ 1,449,600

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

Forward-looking Statements

This report contains certain statements that are forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995 and releases issued by the Securities and Exchange Commission. The words believe, expect, anticipate, intend, plan, estimat other expressions, which are predictions of or indicate future events and trends and that do not relate to historical matters, identify forward-looking statements. Examples of forward-looking statements included in this report include, without limitation, statements regarding the anticipated performance of the Company, the anticipated impact on the Company and its revenues of the end of a substantial portion of its large automotive door panel program, expected methods of growth for the Company, statements regarding prospects for the markets in which the Company competes, and the overall economy.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance, or achievements of the Company to differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements. Other examples of these risks, uncertainties, and other factors include, without limitation, the following: economic conditions that affect sales of the products of the Company s customers, risks associated with the identification of suitable acquisition candidates and the successful, efficient execution and integration of such acquisitions, actions by the Company s competitors, and the ability of the Company to respond to such actions, the ability of the Company to obtain new customers, the ability of the Company to achieve positive results in spite of competition and the conclusion of a substantial portion of its large automotive door panel program, evolving customer requirements, difficulties associated with the roll-out of new products, decisions by customers to cancel or defer orders for the Company s products that previously had been accepted, the costs of compliance with the requirements of Sarbanes-Oxley, and general economic

and industry conditions and other factors. In addition to the foregoing, the Company s actual future results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth elsewhere in this report and changes in general economic conditions, interest rates and the assumptions used in making such forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the risk factors and other disclaimers described in the Company s filings with the Securities and Exchange Commission, in particular its most recent Annual Report on Form 10-K. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

UFP Technologies is an innovative designer and custom converter of foams, plastics, and fiber products. The Company serves a myriad of markets, but specifically targets opportunities in the medical and scientific, automotive, computers and electronics, aerospace and defense, consumer, and industrial markets.

In the first nine months of 2011 the Company experienced organic sales growth of 7.5%, reflecting increased demand for products from the automotive and defense and aerospace markets. The ability of the Company to leverage this sales growth as well as one-time gains and moving allowances associated with the sale of real estate in Alabama by UDT allowed the Company to generate a 16% increase in operating income.

On January 13, 2011, United Development Company Limited (UDT) sold its Alabama facility (Packaging segment) for approximately $1,250,000. The net book value of the asset at December 31, 2010, was approximately $384,000. Selling expenses of approximately $37,000 were incurred.

Due to a redesigned model vehicle, a substantial portion of a large automotive door panel program ended on June 30, 2011, although the Company is still supplying door panels to the customer for other model vehicles. Sales of door panels for the discontinued model vehicle were approximately $1.775 million and $2.0 million in the three-month periods ended September 30, 2010, and December 31, 2010, respectively.

The Company s current strategy includes organic growth and growth through strategic acquisitions.

Sales

Sales for the three-month period ended September 30, 2011, increased 1% to $30.8 million from sales of $30.5 million for the same period in 2010. Sales for the nine-month period ended September 30, 2011, were $95.8 million or 7.5% higher than sales of $89.1 million for the same period in 2010. The increase in sales for the three-month period ended September 30, 2011, is primarily due to increased sales to the medical industry of approximately $735,000 (Component Products segment) as well as an increase in sales of molded fiber packaging of approximately $824,000 (Packaging segment), mostly offset by a decrease in sales to the automotive industry of approximately $1 million. The decline in sales to the automotive industry is largely due to the phase-out of a significant portion of the Company s large door panel program in the Southeast. Excluding the door panel program sales from our results for the three-month period ended September 30, 2010, our revenues for the three-month period ended September 30, 2011, grew 7%. The increase in sales for the nine-month period ended September 30, 2011, was primarily due to increased sales of parts to the automotive industry of approximately $4.0 million (Component Products segment) and an increase in sales of parts to the defense and aerospace market of approximately $1.6 million (Component Products segment) partially offset by a decrease in sales of approximately $600,000 due to the loss of a portion of a large medical account in the second half of 2010 (Component Products segment).

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Gross Profit

Gross profit as a percentage of sales (gross margin) decreased to 27.6 % for the three-month period ended September 30, 2011, from 29.2% for the same period in 2010. Gross margin for the nine-month periods ended September 30, 2011, and 2010 was 28.5%. The decrease in gross margin for the three-month period ended September 30, 2011, is primarily due to increased overhead costs incurred from the closure and relocation of the Company s Alabama operations of approximately $250,000 (0.8% of sales) as well as compensation and benefits associated with added resources in the area of engineering of approximately $150,000 (0.5% of sales). The Company expects to incur additional expenses of approximately $100,000 in the fourth quarter associated with the closure and relocation of its Alabama operations.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses (SG&A) increased approximately $117,000 or 2.3 % to $5.2 million for the three-month period ended September 30, 2011, from $5.1 million for the same period in 2010. SG&A increased approximately $1.1 million or 7.3 % to $16.6 million for the nine-month period ended September 30, 2011, from $15.5 million in the same 2010 period. The $117,000 increase in SG&A for the three-month period ended September 30, 2011, is primarily due to information technology initiatives and normal compensation increases. The $1.1 million increase in SG&A for the nine-month period ended September 30, 2011, is primarily the result of an increase in professional fees of approximately $500,000 associated with the development of enhanced internal operating and information systems and a re-branding and marketing project, as well as approximately $300,000 in additional administrative salaries, wages and benefits.

As a percentage of sales, SG&A increased to 17.0% for the three-month period ended September 30, 2011, from 16.7% for the same three-month period of 2010. As a percentage of sales, SG&A was 17.4% for both the nine-month periods ended September 30, 2011, and 2010. The slight increase in SG&A as a percentage of sales for the three-month period ended September 30, 2011, is primarily due to inflationary increases in SG&A measured against the relatively comparable sales for the two periods.

Gain on Sales of Assets

The gain on sale of assets of approximately $834,000 was derived primarily from the sale of real estate in Alabama by UDT. Of this $834,000 gain, approximately $428,000 relates to non-controlling interests that have been deducted to determine net income attributable to UFP Technologies, Inc.

Other Expenses

The Company had net interest expense of approximately $6,000 and $19,000 for the three- and nine-month periods ended September 30, 2011, compared to net interest expense of approximately $35,000 and $104,000, respectively, for the same periods in 2010. This change is primarily due to lower average borrowings and interest earned on an increased cash position.

The Company recorded a tax expense of approximately 25% of income before income tax expense, excluding net income attributable to noncontrolling interests, for the three-month period ended September 30, 2011, compared to a tax expense of approximately 37% for the comparable three-month period of 2010. The Company recorded a tax expense of approximately 32% of income before income tax expense, excluding net income attributable to noncontrolling interests, for the nine-month period ended September 30, 2011, compared to a tax expense of approximately 37% for the comparable nine-month period of 2010. The decrease in effective income tax rate for the three- and nine-month periods ended September 30, 2011, is primarily due to the reversal during the three-month period ended September 30,

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2011, of approximately $385,000 in reserves previously established for uncertain tax benefits due to a favorable outcome on a concluded Federal Internal Revenue Service audit and the statute of limitations expiring on certain other federal income tax filings. The noncontrolling interest in UDT is not subject to corporate income tax.

Liquidity and Capital Resources

The Company funds its operating expenses, capital requirements, and growth plan through internally generated cash and bank credit facilities.

At September 30, 2011, and December 31, 2010, the Company s working capital was approximately $45.1 million and $38.3 million, respectively. The $6.8 million increase in working capital for the nine-month period ended September 30, 2011, is primarily due to an increase in cash of approximately $6.2 million (strong cash flows and sale of UDT building).

Net cash provided by operations for the nine-month periods ended September 30, 2011, and 2010, was approximately $9.2 million and $9.1 million, respectively. Although the net numbers are comparable, the components differ in several accounts: (i) an increase in net income from consolidated operations of approximately $1.6 million, (ii) an increase in receivables, net during the nine-month period ended September 30, 2011, of approximately $500,000 due to relatively strong September, 2011, sales compared to a decrease in receivables, net of approximately $60,000 during the comparable period of 2010, and (iii) the collection of approximately $559,000 in tax receivables during the nine-month period ended September 30, 2011.

Cash used in investing activities during the nine-month period ended September 30, 2011, was approximately $1.4 million and was primarily the result of normal additions of manufacturing machinery and equipment and software of approximately $2.6 million, partially offset by proceeds from the sale of real estate in Alabama of approximately $1.2 million.

Cash used in financing activities was approximately $1.6 million in the nine-month period ended September 30, 2011, compared to cash used in financing activities of approximately $238,000 in the comparable period of 2010. The increase in cash used in financing activities is due primarily to an increase in payments of statutory withholdings for stock options exercised and restricted stock units of approximately $344,000, due to more options being exercised and a higher average stock price as well as the payoff of approximately $620,000 of mortgage debt of UDT.

On January 29, 2009, the Company amended and extended its credit facility with Bank of America, NA. The facility comprises: (i) a revolving credit facility of $17 million; (ii) a term loan of $2.1 million with a seven-year straight-line amortization; (iii) a term loan of $1.8 million with a 20-year straight-line amortization; and (iv) a term loan of $4.0 million with a 20-year straight-line amortization. Extensions of credit under the revolving credit facility are based in part upon accounts receivable and inventory levels. Therefore, the entire $17 million may not be available to the Company. At September 30, 2011, the Company had availability of approximately $16.7 million, based upon collateral levels as of that date. The credit facility calls for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the option of the Company, the bank s prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon Company performance. The loans are collateralized by a first priority lien on all of the Company s assets, including its real estate located in Georgetown, Massachusetts, and in Grand Rapids, Michigan. Under the credit facility, the Company is subject to a minimum fixed-charge coverage financial covenant with which it was in compliance at September 30, 2011. The Company s

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$17 million revolving credit facility matures November 30, 2013; the term loans are all due on January 29, 2016. The interest rate on these facilities was approximately 1.2% at September 30, 2011.

The Company has no significant capital commitments in 2011, but plans on adding capacity to enhance operating efficiencies in its manufacturing plants. The Company is currently researching and developing its next generation molded fiber production line. Upon completion of that project, the Company currently plans to invest in new state-of-the-art equipment with the goal of having new capacity on line in 2012. The Company may consider additional acquisitions of companies, technologies, or products in 2011 that are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash generated from operations and funds expected to be available to it through any necessary equipment financing and additional bank borrowings, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through at least the end of 2012.

Commitments, Contractual Obligations, and Off-Balance Sheet Arrangements

The following table summarizes the Company s commitments, contractual obligations, and off-balance sheet arrangements at September 30, 2011, and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

Funds due in	Operating Leases	Grand Rapids Mortgage	Term Loans	Georgetown Mortgage	Debt Interest	Supplemental Retirement Plan	Total
2011	$ 465,068	$ 50,000	$ 72,090	$ 23,074	$ 39,324	$ 18,750	$ 668,306
2012	1,688,062	200,000	288,360	92,300	148,225	75,000	2,491,947
2013	974,270	200,000	288,360	92,300	133,708	75,000	1,763,638
2014	661,068	200,000	288,360	92,300	119,192	45,833	1,406,753
2015 and thereafter	116,055	2,833,333	336,424	1,307,583	360,588	125,000	5,078,983
Total	$ 3,904,523	$ 3,483,333	$ 1,273,594	$ 1,607,557	$ 801,037	$ 339,583	$ 11,409,627

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service the obligations listed above. The Company s principal sources of funds are its operations and its revolving credit facility. Although the Company generated cash from operations during the nine-month period ended September 30, 2011, it cannot guarantee that its operations will generate cash in future periods.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of the Company s market risk includes forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. Market risk represents the risk of changes in value of a financial instrument caused by fluctuations in interest rates, foreign exchange rates, and equity prices. At September 30, 2011, the Company s cash and cash equivalents consisted of bank accounts in U.S. dollars, and their valuation would not be affected by market risk. The Company has several debt instruments where interest is based upon either the prime rate or LIBOR and, therefore, future operations could be affected by interest rate changes. However, the Company believes that the market risk of the debt is minimal.

ITEM 4: CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company s Chief Executive Officer and Chief Financial Officer performed an evaluation of the effectiveness of the Company s disclosure controls and

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procedures (as defined in SEC Rule 13a-15(e) or 15d-15(e)). Based upon that evaluation, they concluded that 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 Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There has been no change in the Company s internal control over financial reporting during the most recent 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 1A: RISK FACTORS

Information regarding risk factors appears in Part I Item 2 of this Form 10-Q in Management s Discussion and Analysis of Financial Condition and Results of Operations under Forward-Looking Statements and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, in Part I Item 1A under Risk Factors. There have been no material changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

ITEM 6: EXHIBITS

The following exhibits are included herein:

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	Certification pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document.***
101.SCH	XBRL Taxonomy Extension Schema Document.***
101.CAL	XBRL Taxonomy Calculation Linkbase Document.***
101.LAB	XBRL Taxonomy Label Linkbase Document.***
101.PRE	XBRL Taxonomy Presentation Linkbase Document.***

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. ***

*	Filed herewith.
**	Furnished herewith.
***	Submitted electronically herewith. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934.

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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:	November 9, 2011	By:	/s/ R. Jeffrey Bailly
		R. Jeffrey Bailly Chairman, Chief Executive Officer, President, and Director (Principal Executive Officer)	
Date:	November 9, 2011	By:	/s/ Ronald J. Lataille
		Ronald J. Lataille Chief Financial Officer (Principal Financial Officer)	

EXHIBIT INDEX

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