

UFP TECHNOLOGIES INC
Form 10-Q
November 09, 2016

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 SEPTEMBER 30, 2016

OR

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

For the transition period from ____ to ____

Commission File Number: 001-12648

UFP Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-2314970

(IRS Employer Identification No.)

100 Hale Street, Newburyport, MA 01950, USA

(Address of principal executive offices) (Zip Code)

(978) 352-2200

(Registrant's telephone number, including area code)

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

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 [Do not check if a smaller reporting company]

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

7,228,048 shares of registrant's Common Stock, \$0.01 par value, were outstanding as of November 2, 2016.

UFP Technologies, Inc.

Index

	Page
<u>PART I - FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2016 and September 30, 2015 (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and September 30, 2015 (unaudited)</u>	<u>5</u>
<u>Notes to Interim Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>12</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>16</u>
<u>Item 4. Controls and Procedures</u>	<u>16</u>
<u>PART II - OTHER INFORMATION</u>	<u>17</u>
<u>Item 1A. Risk Factors</u>	<u>17</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>17</u>
<u>Item 6. Exhibits</u>	<u>17</u>
<u>Signatures</u>	<u>18</u>
<u>Exhibit Index</u>	<u>18</u>

PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

UFP Technologies, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,118	\$ 29,804
Receivables, less allowance for doubtful accounts of \$597 at September 30, 2016 and \$499 at December 31, 2015	22,307	17,481
Inventories	14,568	14,202
Prepaid expenses	2,161	930
Refundable income taxes	481	1,186
Total current assets	69,635	63,603
Property, plant and equipment	96,390	90,564
Less accumulated depreciation and amortization	(47,628)	(44,009)
Net property, plant and equipment	48,762	46,555
Goodwill	7,322	7,322
Intangible assets, net	397	636
Other assets	1,927	1,834
Total assets	\$ 128,043	\$ 119,950
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,106	\$ 4,598
Accrued expenses	5,372	5,374
Current installments of long-term debt	1,028	1,011
Total current liabilities	11,506	10,983
Long-term debt, excluding current installments	84	859
Deferred income taxes	3,107	2,883
Other liabilities	1,858	1,653
Total liabilities	16,555	16,378
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 7,228,048 at September 30, 2016 and 7,170,377 at December 31, 2015	72	72

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Additional paid-in capital	25,142	23,705
Retained earnings	86,861	80,382
Treasury stock at cost - 29,559 at September 30, 2016 and December 31, 2015	(587)	(587)
Total stockholders' equity	111,488	103,572
Total liabilities and stockholders' equity	\$ 128,043	\$ 119,950

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

UFP Technologies, Inc.**Condensed Consolidated Statements of Income**

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales	\$37,220	\$34,441	\$109,626	\$104,917
Cost of sales	28,768	24,931	83,161	76,475
Gross profit	8,452	9,510	26,465	28,442
Selling, general & administrative expenses	6,027	5,604	18,402	18,404
Restructuring costs	25	851	203	959
Material overcharge settlement	(1,681)	-	(2,114)	-
Gain on sale of fixed assets	-	-	(4)	(31)
Operating income	4,081	3,055	9,978	9,110
Interest income (expense), net	25	9	51	(7)
Income before income tax expense	4,106	3,064	10,029	9,103
Income tax expense	1,437	1,072	3,550	3,186
Net income	\$2,669	\$1,992	\$6,479	\$5,917
Net income per share:				
Basic	\$0.37	\$0.28	\$0.90	\$0.83
Diluted	\$0.37	\$0.28	\$0.89	\$0.82
Weighted average common shares outstanding:				
Basic	7,225	7,131	7,213	7,108
Diluted	7,312	7,230	7,294	7,212

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

UFP Technologies, Inc.**Condensed Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$6,479	\$5,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,109	3,507
Gain on sale of fixed assets	(4)	(31)
Share-based compensation	871	873
Excess tax benefit on share-based compensation	(126)	(219)
Deferred income taxes	224	283
Changes in operating assets and liabilities:		
Receivables, net	(4,826)	(2,785)
Inventories	(366)	(642)
Prepaid expenses	(1,231)	(682)
Refundable income taxes	831	2,503
Other assets	(93)	105
Accounts payable	508	(666)
Accrued expenses	(2)	1,220
Other liabilities	205	(136)
Net cash provided by operating activities	6,579	9,247
Cash flows from investing activities:		
Additions to property, plant, and equipment	(6,077)	(13,003)
Proceeds from sale of fixed assets	4	31
Net cash used in investing activities	(6,073)	(12,972)
Cash flows from financing activities:		
Principal repayments of long-term debt	(758)	(745)
Proceeds from exercise of stock options, net of attestation	529	220
Excess tax benefit on share-based compensation	126	219
Repurchases of common stock	-	(587)
Payment of statutory withholdings for stock options exercised and restricted stock units vested	(89)	(79)
Net cash used in financing activities	(192)	(972)
Net increase (decrease) in cash and cash equivalents	314	(4,697)
Cash and cash equivalents at beginning of period	29,804	34,052
Cash and cash equivalents at end of period	\$30,118	\$29,355

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

Notes to Interim Condensed Consolidated Financial Statements

(1) Basis of Presentation

The interim condensed consolidated financial statements of UFP Technologies, Inc. (the “Company”) presented herein, have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all the information and note disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015, included in the Company's 2015 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

The condensed consolidated balance sheet as of September 30, 2016, the condensed consolidated statements of income for the three- and nine-month periods ended September 30, 2016 and 2015, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and 2015 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 condensed consolidated balance sheet as of December 31, 2015 has been derived from the Company’s annual financial statements that were audited by an independent registered public accounting firm, but does not include all of the information and footnotes required for complete annual financial statements.

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

The results of operations for the three- and nine-month periods ended September 30, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2016.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, *Improvements to Employee Share Based Payment Accounting*. This ASU simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards and classification on the statement of cash flows. The provisions of this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. This amendment is applicable to the Company beginning in the first quarter of 2017. The Company is evaluating the impact of adopting this ASU on its consolidated financial position and results of operations.

(2) Supplemental Cash Flow Information

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

	Nine Months Ended September 30,	
	2016	2015
Interest, net	\$(53)	\$5
Income taxes, net of refunds	\$2,178	\$400

(3) Fair Value of Financial Instruments

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.

(4) Share-Based Compensation

Share-based compensation is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

The Company issues share-based awards through several plans that are described in detail in the notes to the consolidated financial statements for the year ended December 31, 2015. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Total share-based compensation expense	\$229	\$226	\$871	\$873

Share-based compensation for the nine-month periods ended September 30, 2016 and 2015 includes approximately \$105,000, in each period respectively, representing the fair value of the Company's common stock granted during the periods to the Company's Board of Directors.

The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately \$67,000 and \$63,000, for the three-month periods ended September 30, 2016 and 2015, respectively, and \$264,000 and \$256,000, for the nine-month periods ended September 30, 2016 and 2015, respectively.

The following is a summary of stock option activity under all plans for the nine-month period ended September 30, 2016:

Shares Under Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
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Outstanding at December 31, 2015	270,205	\$ 15.40		
Granted	17,184	22.02		
Exercised	(44,887)	11.79		
Outstanding at September 30, 2016	242,502	\$ 16.54	3.98	\$ 2,415
Exercisable at September 30, 2016	220,002	\$ 16.05	4.18	\$ 2,298
Vested and expected to vest at September 30, 2016	242,502	\$ 16.54	3.98	\$ 2,415

On June 9, 2016, the Company granted options to its directors for the purchase of 17,184 shares of common stock at that day's closing price of \$22.02. The compensation expense related to these grants was determined as the fair value of the options using the Black Scholes option pricing model based on the following assumptions:

Expected volatility		29.7	%
Expected dividends		None	
Risk-free interest rate		0.9	%
Exercise price	\$	22.02	
Expected term (years)		5.0	
Weighted average grant date fair value	\$	6.11	

The stock volatility for each grant is determined based on a review of the experience of the weighted average of historical daily price changes of the Company's common stock over the expected option term, and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The expected term is calculated based on the simplified method.

During the nine-month periods ended September 30, 2016 and 2015, 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 \$564,000 and \$989,000, respectively, and the total amount of consideration received by the Company from the exercised options was approximately \$529,000 and \$258,000, 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 nine months ended September 30, 2016, there were no shares surrendered for this purpose. During the nine months ended September 30, 2015, there were 1,632 shares surrendered at an average market price of \$21.97.

During each of the three-month periods ended September 30, 2016 and 2015, the Company recognized compensation expense related to stock options granted to directors and employees of approximately \$34,000 and \$44,000, respectively. During each of the nine-month periods ended September 30, 2016 and 2015, the Company recognized compensation expense related to stock options granted to directors and employees of approximately \$212,000 and \$237,000, respectively.

On February 22, 2016, 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 December 22, 2016. The Company recorded compensation expense associated with the award of \$100,000 and \$300,000, respectively, during the three- and nine-month periods ended September 30, 2016. The Company recorded compensation expense associated with a similar award of \$100,000 and \$300,000, respectively, during the three- and nine-month periods ended September 30, 2015.

The following table summarizes information about Restricted Stock Units ("RSUs") activity during the nine-month period ended September 30, 2016:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Unvested at December 31, 2015	40,645	\$ 19.67
Awarded	17,822	21.66
Shares vested	(11,909)	20.94