

UFP TECHNOLOGIES INC
Form 10-Q
August 09, 2016
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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 June 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.

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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.)

100 Hale Street, Newburyport, Massachusetts 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

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

7,223,048 shares of registrant's Common Stock, \$0.01 par value, were outstanding as of August 2, 2016.

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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

UFP Technologies, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,007	\$ 29,804
Receivables, less allowance for doubtful accounts of \$611 at June 30, 2016 and \$499 at December 31, 2015	23,020	17,481
Inventories	13,884	14,202
Prepaid expenses	2,595	930
Refundable income taxes	480	1,186
Total current assets	66,986	63,603
Property, plant and equipment	94,673	90,564
Less accumulated depreciation and amortization	(46,348)	(44,009)
Net property, plant and equipment	48,325	46,555
Goodwill	7,322	7,322
Intangible assets, net	477	636
Other assets	1,869	1,834
Total assets	\$ 124,979	\$ 119,950
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,463	\$ 4,598
Accrued expenses	4,769	5,374
Current installments of long-term debt	1,020	1,011
Total current liabilities	11,252	10,983
Long-term debt, excluding current installments	345	859
Deferred income taxes	3,107	2,883
Other liabilities	1,765	1,653
Total liabilities	16,469	16,378
Commitments and contingencies		
Stockholders' equity:	—	—

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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 7,223,048 at June 30, 2016 and 7,170,377 shares at December 31, 2015	72	72
Additional paid-in capital	24,833	23,705
Retained earnings	84,192	80,382
Treasury stock at cost - 29,559 shares at June 30, 2016 and December 31, 2015	(587)	(587)
Total stockholders' equity	108,510	103,572
Total liabilities and stockholders' equity	\$ 124,979	\$ 119,950

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net sales	\$ 37,902	\$ 36,499	\$ 72,406	\$ 70,476
Cost of sales	27,607	26,206	54,384	51,544
Gross profit	10,295	10,293	18,022	18,932
Selling, general, and administrative expenses	6,470	6,776	12,374	12,800
Restructuring costs	55	30	178	108
Material overcharge settlement	(423)	—	(423)	—
Gain on sale of fixed assets	—	—	(4)	(31)
Operating income	4,193	3,487	5,897	6,055
Interest income (expense), net	15	8	26	(15)
Income before income tax expense	4,208	3,495	5,923	6,040
Income tax expense	1,473	1,223	2,113	2,114
Net income	2,735	2,272	3,810	3,926
Net income per share:				
Basic	\$ 0.38	\$ 0.32	\$ 0.53	\$ 0.55
Diluted	\$ 0.38	\$ 0.32	\$ 0.53	\$ 0.55
Weighted average common shares outstanding:				
Basic	7,196	7,116	7,185	7,096
Diluted	7,271	7,210	7,263	7,203

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

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 3,810	\$ 3,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,749	2,341
Gain on sale of fixed assets	(4)	(31)
Share-based compensation	642	647
Excess tax benefit on share-based compensation	(126)	(219)
Deferred income taxes	224	194
Changes in operating assets and liabilities:		
Receivables, net	(5,539)	(3,048)
Inventories	318	61
Prepaid expenses	(1,665)	(1,000)
Refundable income taxes	832	2,932
Other assets	(35)	(44)
Accounts payable	865	(925)
Accrued expenses	(605)	924
Other liabilities	112	(71)
Net cash provided by operating activities	1,578	5,687
Cash flows from investing activities:		
Additions to property, plant, and equipment	(4,360)	(10,461)
Proceeds from sale of fixed assets	4	31
Net cash used in investing activities	(4,356)	(10,430)
Cash flows from financing activities:		
Principal repayments of long-term debt	(505)	(496)
Proceeds from exercise of stock options, net of attestation	449	220
Excess tax benefit on share-based compensation	126	219
Payment of statutory withholdings for stock options exercised and restricted stock units vested	(89)	(79)
Net cash used in financing activities	(19)	(136)
Net decrease in cash and cash equivalents	(2,797)	(4,879)
Cash and cash equivalents at beginning of period	29,804	34,052
Cash and cash equivalents at end of period	\$ 27,007	\$ 29,173

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, 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 June 30, 2016, the condensed consolidated statements of income for the three- and six- month periods ended June 30, 2016 and 2015, and the condensed consolidated statements of cash flows for the six- month periods ended June 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 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 six- month periods ended June 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 us 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):

	Six months ended June 30,	
	2016	2015
Interest, net	\$ (27)	\$ 15
Income taxes, net of refunds	\$ 728	\$ (1,013)

(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.

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(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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total Share-based compensation expense	\$ 441	\$ 436	\$ 642	\$ 647

Share-based compensation for the three and six-month periods ended June 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 Board of Directors.

The total income tax benefit recognized in the condensed consolidated statements of income for share-based compensation arrangements was approximately \$103,000 and \$135,000, respectively, for the three-month periods ended June 30, 2016 and 2015, and approximately \$161,000 and \$193,000, respectively, for the six-month periods ended June 30, 2016 and 2015

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

	Shares Under Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2015	270,205	\$ 15.40		
Granted	17,184	22.02		
Exercised	(39,887)	11.26		
Outstanding June 30, 2016	247,502	\$ 16.53	4.15	\$ 1,563

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Exercisable at June 30, 2016	216,253	\$ 15.82	4.42	\$ 1,510
Vested and expected to vest at June 30, 2016	247,502	\$ 16.53	4.15	\$ 1,563

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	5.0 years
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.

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During the six-month periods ended June 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 \$518,000 and \$696,000, respectively, and the total amount of consideration received by the Company from the exercised options was approximately \$449,000 and \$223,000, 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 six months ended June 30, 2016 and 2015, there were no shares surrendered for this purpose.

During each of the three-month periods ended June 30, 2016 and 2015, the Company recognized compensation expense related to stock options granted to directors and employees of approximately \$141,000 and \$149,000, respectively. During each of the six-month periods ended June 30, 2016 and 2015, the Company recognized compensation expense related to stock options granted to directors and employees of approximately \$177,000 and \$193,000, 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 \$200,000, respectively, during the three- and six-month periods ended June 30, 2016. The Company recorded compensation expense associated with a similar award of \$100,000 and \$200,000, respectively, during the three- and six-month periods ended June 30, 2015.

The following table summarizes information about Restricted Stock Units ("RSUs") activity during the six-month period ended June 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
Unvested at June 30, 2016	46,558	\$ 20.00

During each of the three- and six-month periods ended June 30, 2016, the Company recorded compensation expense related to RSUs of approximately \$95,000 and \$160,000, respectively. The Company recorded compensation expense related to RSUs of approximately \$82,000 and \$149,000, respectively, for the same periods in 2015.

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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 six-month periods ended June 30, 2016 and 2015, 3,889 and 3,405 shares were surrendered at an average market price of \$22.82 and \$23.15, respectively.

As of June 30, 2016, the Company had approximately \$1.1 million of unrecognized compensation expense, which is expected to be recognized over a period of 3.75 years.

(5) Inventories

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

	June 30, 2016	December 31, 2015
Raw materials	\$ 7,560	\$ 7,506
Work in process	1,214	1,192
Finished goods	5,110	5,504
Total inventory	\$ 13,884	\$ 14,202

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(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.

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

Three	Six
Months	Months
Ended	Ended
June 30,	