

UFP TECHNOLOGIES INC
Form 10-Q
May 13, 2008

**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, 2008**

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)

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2314970
(IRS Employer Identification No.)

172 East Main Street, Georgetown, Massachusetts 01833, USA

(Address of principal executive offices) (Zip Code)

(978) 352-2200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ; No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See 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

5,505,278 shares of registrant's Common Stock, \$.01 par value, were outstanding as of April 18, 2008.

UFP Technologies, Inc.

Index

	Page
<u>PART I - FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2008, and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2008, and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008, and 2007</u>	5
<u>Notes to Interim Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion & Analysis of Financial Condition & Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
<u>PART II - OTHER INFORMATION</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 6. Exhibits</u>	20
<u>SIGNATURES / EXHIBIT INDEX</u>	21
Exhibits	22

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

	31-Mar-2008		31-Dec-2007
	(unaudited)		(audited)
Assets			
Current assets:			
Cash	\$ 2,482,655	\$	9,060,347
Receivables, net	14,990,595		11,795,468
Inventories	8,049,983		5,876,626
Prepaid expenses	1,337,251		821,250
Deferred income taxes	1,077,320		1,021,320
Total current assets	27,937,804		28,575,011
Property, plant and equipment	41,495,659		38,269,142
Less accumulated depreciation and amortization	(29,517,765)		(28,777,323)
Net property, plant and equipment	11,977,894		9,491,819
Cash surrender value of officers life insurance	172,536		172,536
Deferred income taxes	329,216		188,650
Goodwill	6,481,037		6,481,037
Other assets	1,004,033		643,721
Total assets	\$ 47,902,520	\$	45,552,774
Liabilities and Stockholders Equity			
Current liabilities:			
Current installments of long-term debt	\$ 715,438	\$	714,256
Current installments of capital lease obligations	717,319		704,408
Accounts payable	6,063,200		5,694,152
Accrued taxes and other expenses	6,607,653		6,510,216
Total current liabilities	14,103,610		13,623,032
Long-term debt, excluding current installments	4,479,575		4,658,464
Capital lease obligations, excluding current installments	1,428,420		1,612,664
Minority interest	599,335		583,533
Retirement and other liabilities	1,206,200		832,141
Total liabilities	21,817,140		21,309,834
Commitments and contingencies			
Stockholders equity:			
Common stock, \$.01 par value. Authorized 20,000,000 shares; issued and outstanding 5,499,028 shares at March 31, 2008, and 5,375,381 shares at December 31, 2007	54,990		53,754
Additional paid-in capital	12,461,862		11,768,799
Retained earnings	13,568,528		12,420,387
Total stockholders equity	26,085,380		24,242,940
Total liabilities and stockholders equity	\$ 47,902,520	\$	45,552,774

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

UFP Technologies, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended	
	31-Mar-2008	31-Mar-2007
Net sales	\$ 28,008,036	\$ 22,012,636
Cost of sales	21,119,910	17,413,154
Gross profit	6,888,126	4,599,482
Selling, general & administrative expenses	4,922,099	3,612,774
Operating income	1,966,027	986,708
Interest expense, net	98,384	152,805
Minority interest earnings	15,802	25,403
Other income		(32,500)
Income before income tax expense	1,851,841	841,000
Income tax expense	703,700	319,580
Net income	\$ 1,148,141	\$ 521,420
<i>Net income per share:</i>		
Basic	\$ 0.21	\$ 0.10
Diluted	\$ 0.19	\$ 0.09
<i>Weighted average common shares outstanding:</i>		
Basic	5,449,682	5,206,375
Diluted	6,090,530	5,747,265

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

UFP Technologies, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended	
	31-Mar-2008	31-Mar-2007
Cash flows from operating activities:		
Net income	\$ 1,148,141	\$ 521,420
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	757,710	702,605
Minority interest earnings	15,802	25,403
Stock issued in lieu of cash compensation	343,880	256,075
Share-based compensation	246,786	116,819
Deferred income taxes	(14,566)	337,331
Gain on disposal of fixed assets		(32,500)
Changes in operating assets and liabilities:		
Receivables, net	(1,458,328)	505,484
Inventories, net	(331,743)	(144,405)
Prepaid expenses and other current assets	(470,850)	(542,488)
Accounts payable	223,045	275,860
Accrued expenses and payroll withholdings	(559,925)	(956,130)
Retirement and other liabilities	173,384	75,895
Other assets	(377,580)	(93,805)
Net cash (used in) provided by operating activities	(304,244)	1,047,564
Cash flows from investing activities:		
Additions to property, plant and equipment	(606,221)	(499,252)
Acquisition of Stephenson & Lawyer, Inc. net of cash acquired	(5,181,066)	
Proceeds from fixed asset disposals		32,500
Net cash used in investing activities	(5,787,287)	(466,752)
Cash flows from financing activities:		
Change in book overdrafts	(240,755)	224,839
Principal repayments of long-term debt	(177,707)	(170,643)
Proceeds from exercise of stock options	73,863	6,425
Tax benefit from exercise of non-qualified stock options	14,566	2,669
Principal repayments of capital lease obligations	(171,333)	(192,902)
Net proceeds from sale of common stock	15,205	11,935
Net cash used in financing activities	(486,161)	(117,677)
Net increase (decrease) in cash	(6,577,692)	463,135
Cash at beginning of period	9,060,347	1,017,122
Cash at end of period	\$ 2,482,655	\$ 1,480,257

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, without audit, 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, 2007, included in the Company's 2007 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

The condensed consolidated balance sheet as of March 31, 2008, the condensed consolidated statements of income for the three-month periods ended March 31, 2008, and 2007, and the condensed consolidated statements of cash flows for the three months ended March 31, 2008, and 2007, are unaudited but, in the opinion of management, include all adjustments (consisting of normal, recurring adjustments) necessary for 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, 2008, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2008.

(2) **Investment in Affiliated Partnership**

The Company has a 26.32% ownership interest in a realty limited partnership, United Development Company Limited (UDT). In accordance with the provisions of FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, the Company has consolidated the financial statements of UDT because it has determined that UDT is a variable interest entity (VIE) pursuant to Paragraph 5.a of FIN 46R, and the Company is the primary beneficiary. Included in the Condensed Consolidated Balance Sheets are the following UDT amounts:

	31-Mar-2008		31-Dec-2007	
Cash	\$	207,243	\$	165,361
Net property, plant, and equipment		1,390,765		1,408,264
Accrued expenses		22,900		12,900
Current and long-term debt		761,679		768,744

(3) New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. This standard only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not increase the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except as it relates to nonrecurring fair value measurements of nonfinancial assets and liabilities for which the standard is effective for fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 in the first quarter of 2008.

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 SFAS No.157 and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets and liabilities are as follows:

Level 1 Valued based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The assets valued and carried by the Company using Level 1 inputs are our money market accounts and certificates of deposit. There are no liabilities valued and carried using Level 1 inputs.

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. No assets or liabilities are currently valued based on Level 2 inputs.

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. Generally, the only significant assets and liabilities carried at fair value and included in this category are those acquired through business combinations. These assets and liabilities are excluded from the initial adoption of SFAS No. 157.

Financial instruments that currently require disclosure under SFAS No. 157 consist of money market funds and certificates of deposit, both considered cash equivalents. Assets and liabilities measured at fair value on a recurring basis are categorized by the levels discussed above, and in the tables below:

	Level 1	Level 2	Level 3	Total
Money market funds (cash equivalents)	\$ 827,000	\$	\$	\$ 827,000
Certificates of deposit (cash equivalents)	\$ 400,000	\$	\$	\$ 400,000
Total	\$ 1,227,000	\$	\$	\$ 1,227,000

In addition, the Company is evaluating the impact of SFAS No. 157 for measuring nonfinancial assets and liabilities on future results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items, for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 in the first quarter of 2008 did not have an impact on the Company's consolidated results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*, which changes how business acquisitions are accounted. SFAS No. 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets and tax benefits. SFAS No. 141R is effective for the Company for business combinations and adjustments to an acquired entity's deferred tax asset and liability balances occurring after December 31, 2008. The Company is currently evaluating the future impacts and disclosures of this standard.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). This statement requires changes in the parent's ownership interest of consolidated subsidiaries to be accounted for as equity transactions. This statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The Company is currently evaluating the future impacts and disclosures of this standard.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, which changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement's disclosure requirements are effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the future impacts and disclosures of this standard.

(4) Acquisition

On January 18, 2008, the Company acquired 100% of the common stock of Stephenson & Lawyer, Inc., a Grand Rapids, Michigan-based foam fabricator. S&L was consolidated into the Company's financial statements effective as of January 1, 2008. S&L specializes in the fabrication of technical urethane foams, and brings to the Company access to this family of foams, modern manufacturing capabilities, and a seasoned management team. Including a purchase price of \$7,225,000 plus transaction costs, the total acquisition cost was \$7,325,000. The acquisition cost was allocated as follows:

Cash and cash equivalents	\$	2,144,000
Accounts receivable		1,737,000
Inventories		1,842,000
Prepays		45,000
Other assets		182,000
Property, plant and equipment		2,620,000
Current liabilities		(1,045,000)
Other liabilities		(200,000)
Purchase price	\$	7,325,000
Cash and cash equivalents acquired		(2,144,000)
Purchase price net of cash acquired	\$	5,181,000

The following table contains an unaudited pro forma condensed consolidated statement of operation for the three-month period ended March 31, 2007, as if the S&L acquisition has occurred at the beginning of that period. No pro forma adjustments have been made to the comparative condensed consolidated statement of operation for the period ended March 31, 2008, since the S&L acquisition was effective as of the beginning of that period:

	Three Months Ended	
	31-Mar-2008	31-Mar-2007
Sales	\$ 28,008,036	\$ 25,291,366
Operating income	1,966,027	939,659
Net income	1,148,141	481,880
Earnings per share:		
Basic	\$ 0.21	\$ 0.09
Diluted	0.19	0.08

The above pro forma information is presented for illustrative purpose only and may not be indicative of the results of operations that would have actually occurred had the S&L acquisition occurred as presented. In addition, future results may vary significantly from the results reflected in such pro forma information.

(5) Share Based Compensation

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

The Company issues share-based payments through several plans, which are described below. The compensation cost that has been charged against income for those plans is as follows:

	Three Months Ended	
	31-Mar-2008	31-Mar-2007
Cost of sales	\$	\$
Selling, general & administrative expense	246,786	116,819
Total share-based compensation expense	\$ 246,786	\$ 116,819

The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately \$84,100 and \$44,400 for the three-month periods ended March 31, 2008, and 2007, respectively.

Employee Stock Option Plan

The Company's 1993 Employee Stock Option Plan ("Employee Stock Option Plan"), which is stockholder-approved, provides long-term rewards and incentives in the form of stock options to the Company's key employees, officers, employee directors, consultants, and

advisors. The plan provides for either non-qualified stock options or incentive stock options for the issuance of up to 1,550,000 shares of common stock. The exercise price of the incentive stock options may not be less than the fair market value of the common stock on the date of grant, and the exercise price for non-qualified stock options shall be determined by the Compensation Committee. These options expire over five- to ten-year periods. Options granted under the plan generally become exercisable with respect to 25% of the total number of shares subject to such options at the end of each 12-month period following the grant of the options, except for options granted to officers, which may vest on a different schedule. At March 31, 2008, there were 673,375 options outstanding under the Employee Stock Option Plan. Should stock options be issued under the Employee Stock Option Plan in the future, the Company will record compensation expense based upon the intrinsic fair market value of the stock options, using a lattice-based option valuation model.

Equity Incentive Plan

In June 2003, the Company formally adopted the 2003 Equity Incentive Plan (the "Equity Incentive Plan"). The Plan is intended to benefit the Company by offering equity-based incentives to certain of the Company's executives and employees, thereby giving them a permanent stake in the growth and long-term success of the Company and encouraging the continuance of their involvement with the Company's businesses. Two types of awards may be granted to participants under the Equity Incentive Plan: restricted shares or other stock awards. Restricted shares are shares of common stock awarded subject to restrictions and to possible forfeiture upon the occurrence of specified events. Other stock awards are awards that are denominated or payable in, valued in whole or in part by reference to or otherwise based on or related to shares of common stock. Such awards may include, Restricted Stock Unit Awards ("RSUs"), unrestricted or restricted stock, nonqualified options, performance shares, or stock appreciation rights. The Company determines the form, terms, and conditions, if any, of any awards made under the Equity Incentive Plan. The maximum number of shares of common stock, in the aggregate, that may be delivered in payment or in respect of stock issued under the Plan is 1,250,000 shares. Through March 31, 2008, there were 367,999 shares of common stock issued under the Equity Incentive Plan, none of which have been restricted; an additional 441,000 shares are being reserved for outstanding grants of RSUs and other share-based compensation that are subject to various performance and time-vesting contingencies.

Stock Purchase Plan

On April 18, 1998, the Company adopted the 1998 Stock Purchase Plan (the "Stock Purchase Plan"), which provides that all employees of the Company (who work more than twenty hours per week and more than five months in any calendar year, and who are employees on or before the applicable offering period) are eligible to participate. The Stock Purchase Plan is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986. Under the Stock Purchase Plan participants may have up to 10% of their base salaries withheld for the purchase of the Company's common stock at 95% of the market value of the common stock on the last day of the offering period. The offering periods are from January 1 through June 30 and from July 1 through December 31 of each calendar year. The 1998 Stock Purchase Plan provides for the issuance of up to 400,000 shares of common stock. Through March 31, 2008, there were 305,302 shares issued under this plan.

Director Plans

Through July 15, 1998, the Company maintained a stock option plan covering non-employee directors (the 1993 Director Plan). Effective July 15, 1998, with the formation of the 1998 Director Stock Option Incentive Plan (the 1998 Director Plan), the 1993 Director Plan was frozen. The 1993 Director Plan provided for options for the issuance of up to 110,000 shares of common stock. On July 1 of each year, each individual who at the time was serving as a non-employee director of the Company received an automatic grant of options to purchase 2,500 shares of common stock. These options became exercisable in full the date of the grant and expire ten years from the date of grant. The exercise price was the fair market value of the common stock on the date of grant. At March 31, 2008, there were no options outstanding under the 1993 Director Plan.

Effective July 15, 1998, the Company adopted the 1998 Director Plan (1998 Director Plan) for the benefit of non-employee directors of the Company. The 1998 Director Plan provided for options for the issuance of up to 425,000 shares of common stock. On June 2, 2004, the Company amended the 1998 Director Plan to increase the allowable amount to 725,000 shares. These options become exercisable in full at the date of grant and expire ten years from the date of grant. In connection with the adoption of the 1998 Director Plan, the 1993 Director Plan was frozen; however, the options outstanding under the 1993 Director Plan were not affected by the adoption of the new plan. At March 31, 2008, there were 366,183 options outstanding under the 1998 Director Plan.

The following is a summary of stock option activity under all plans:

	Shares Under Options		Weighted Average Exercise Price		Aggregate Intrinsic Value
Outstanding December 31, 2007	1,103,808	\$	2.59		
Granted					
Exercised	(40,750)		1.81		
Cancelled or expired	(23,500)		1.43		
Outstanding March 31, 2008	1,039,558	\$	2.64	\$	5,350,217
Options exercisable at March 31, 2008	978,808	\$	2.54	\$	5,142,155
Vested and expected to vest at March 31, 2008	1,039,558	\$	2.64	\$	5,350,217

During the three months ended March 31, 2008, the total intrinsic value of all options exercised (i.e., the difference between the market price and the price paid by the employees to exercise the options) was \$211,831 and the total amount of consideration received from the exercise of these options was \$73,863.

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

The following is a summary of information relating to stock options outstanding and exercisable by price range as of March 31, 2008:

Range of exercise prices	Outstanding as of 31-Mar-2008	Options Outstanding Weighted average remaining contractual life	Weighted average exercise price	Options Exercisable as of 31-Mar-2008	Weighted average exercise price
\$ 0.00 - \$0.99	50,000	3.7	\$ 0.81	50,000	\$ 0.81
\$ 1.00 - \$1.99	283,956	4.4	1.24	283,956	1.24
\$ 2.00 - \$2.99	344,684	4.8	2.50	344,684	2.50
\$ 3.00 - \$3.99	230,585	4.4	3.32	196,085	3.31
\$ 4.00 - \$4.99	5,000	3.7	4.94	1,250	4.94
\$ 5.00 - \$5.99	65,456	8.0	5.15	52,956	5.14
\$ 6.00 - \$6.99	59,877	7.6	6.15	49,877	6.07
	1,039,558	4.9	\$ 2.64	978,808	\$ 2.54

The total grant date fair value of stock options that vested during the three months ended March 31, 2008, and 2007 was approximately \$394,000 and \$435,000, respectively, with a weighted average remaining contractual term of approximately two and three years, respectively.

On February 8, 2008, the Company's Compensation Committee approved the issuance of 25,000 shares of unrestricted common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Equity Incentive Plan. The shares will be issued on or before December 31, 2008. Based upon the provisions of SFAS 123R, the Company has recorded compensation expense of \$38,625 during the three-month period ended March 31, 2008, based on the grant date price of \$6.18 at February 8, 2008.

Beginning in 2006, RSUs have been granted under the 2003 Equity Incentive Plan to the executive officers of the Company. The stock unit awards are subject to various time-based vesting requirements, and certain portions of these awards are subject to performance criteria of the Company. Compensation expense on these awards is recorded based on the fair value of the award at the date of grant, which is equal to the Company's stock price, and is charged to expense ratably during the service period. No compensation expense is taken on awards that do not become vested, and the amount of compensation expense recorded is adjusted based on management's determination of the probability that these awards will become vested. The following table summarizes information about stock unit award activity during the three-month period ended March 31, 2008:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2007	272,000	\$ 5.49
Awarded	144,000	6.35
Shares distributed		
Forfeited / cancelled		
Outstanding at March 31, 2008	416,000	\$ 5.79

The Company recorded \$182,667 and \$60,090 in compensation expense related to these SUAs during the three-month periods ended March 31, 2008, and 2007, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through March 31, 2008, vest:

	Options		Common Stock		Restricted Stock Units		Total
2008	\$ 75,198	\$	115,875	\$	684,729	\$	875,802
2009	42,403				498,756		541,159
2010	22,682				286,450		309,132
2011	11,082				151,293		162,375
2012					17,884		17,884
	\$ 151,365	\$	115,875	\$	1,639,112	\$	1,906,352

(6) **Inventories**

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

	31-Mar-2008	31-Dec-2007
Raw materials	\$ 6,091,264	\$ 3,681,262
Work in process	580,606	340,134
Finished goods	2,516,239	2,150,635
Reserves for obsolescence	\$ (1,138,126)	\$ (295,405)
Total inventory	\$ 8,049,983	\$ 5,876,626

(7) **Earnings Per Share**

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

Basic earnings per share computations are based on the weighted average number of shares of common stock outstanding. Diluted earnings 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 diluted net income per share consisted of the following:

	Three Months Ended	
	31-Mar-2008	31-Mar-2007
Weighted average common shares outstanding, basic	5,449,682	5,206,375
Weighted average common equivalent shares due to stock options	640,848	540,890
Weighted average common shares outstanding, diluted	6,090,530	5,747,265

(8) **Segment Reporting**

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

The Company is organized based on the nature of the products and services that 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, which includes the results of S&L beginning on January 1, 2008, the Company primarily uses cross-linked polyethylene foam to provide customers in the automotive, athletic, leisure, and health and beauty industries with engineered product for numerous purposes.

The accounting policies of the segments are the same as those described in Note 1 of the Company's annual report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission. The Company evaluates the performance of its operating segments based on net income.

Inter-segment transactions are uncommon and not material. Therefore, they have not been separately reflected in the financial table below. Revenues from customers outside of the United States are not material. One customer in the Component Products group comprised 13.5% of the Company's consolidated revenues during the three-month period ended March 31, 2008. All of the Company's assets are located in the United States.

	Three Months Ended 31-Mar-2008			Three Months Ended 31-Mar-2007		
	Engineered Packaging	Component Products	Total UFPT	Engineered Packaging	Component Products	Total UFPT
Net sales	\$ 12,098,769	\$ 15,909,267	\$ 28,008,036	\$ 8,972,587	\$ 13,040,049	\$ 22,012,636
Net income	718,186	429,955	1,148,141	89,889	431,531	521,420

(9) **Indebtedness**

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

As a component of consolidating UDT's assets, the Company included \$207,243 and \$165,361 in cash at March 31, 2008, and December 31, 2007, respectively. Although this cash balance is not legally restricted, the Company does not use this cash in its operations.

On February 28, 2003, the Company obtained a credit facility, which was amended effective March 24, 2004, June 28, 2004, and November 21, 2005, to reflect, among other things, changes to certain financial covenants. The amended facility is comprised of: (i) a revolving credit facility of \$17 million that is collateralized by the Company's accounts receivable and inventory; (ii) a term loan of \$3.7 million with a 7-year straight-line amortization that is collateralized by the Company's property, plant and equipment (excluding UDT's property, plant and equipment); and (iii) a term loan of \$2.3 million with a 15-year straight-line amortization that is collateralized by a mortgage on the Company's real estate located in Georgetown, Massachusetts. Extensions of credit under the revolving credit facility are subject to available collateral based upon accounts receivable and inventory levels. Therefore, the entire \$17 million may not be available to the Company. As of March 31, 2008, based upon no revolving credit facility borrowings outstanding and collateral levels, the Company had availability of approximately \$13.7 million under this facility. The amount of availability can fluctuate significantly. The amended credit facility

calls for interest of Prime or LIBOR plus a margin that ranges from 1.0% to 1.5%, depending upon the Company's operating performance. At March 31, 2008, all borrowings under this credit facility had interest computed at Prime or LIBOR plus 1.0%. Under the amended credit facility, the Company is subject to certain financial covenants including maximum capital expenditures and minimum fixed charge coverage. As of March 31, 2008, the Company was in compliance with all of these covenants. The Company's \$17 million revolving credit facility, as amended, is due February 28, 2009; the \$3.7 million term loan, and the \$2.3 million mortgage are due November 21, 2011. At March 31, 2008, the interest rate on these facilities ranged from 4.0% to 5.9%.

As a result of the consolidation of UDT, a mortgage note dated May 22, 2007, collateralized by the Florida facility, is included within long-term debt in the Consolidated Financial Statements. The note had an original principal balance of \$786,000, and calls for 180 monthly payments of \$7,147. The interest rate is fixed at approximately 7.2%. Payments on this note are funded through rent payments that the Company makes on its Alabama and Florida facilities. The Company is not a guarantor and is not subject to any financial covenants under this mortgage note.

At March 31, 2008, the Company also had capital lease obligations of approximately \$2.1 million. At March 31, 2008, the current portion of all debt including term loans and capital lease obligations was approximately \$1.4 million.

The Company had book overdrafts of approximately \$2.0 million and \$2.2 million at March 31, 2008, and December 31, 2007, respectively. The Company classifies book overdrafts within Accounts Payable on its Condensed Consolidated Balance Sheets.

The Company believes that its existing resources, including its revolving line of credit facility together with cash expected to be generated from operations and funds expected to be available to it through any necessary equipment financing, will be sufficient to fund its cash flow requirements through at least the next twelve months. However, there can be no assurances that the Company will be able to obtain such financing, or that such financing will be available at favorable terms, if at all.

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

Forward-looking Statements:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

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, estimate, and other expressions, which are predictions of or indicate future events and trends and that do not relate to historical matters, identify forward-looking statements. The Company's plans, described below, to execute a program that launched in the fourth quarter of 2004 for an automotive supplier that could be as large as \$95 million is an example of a forward-looking statement. 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.

The \$95 million revenue value of the automotive contract is an estimate, based on the automotive supplier's projected needs. The Company cannot guarantee that it will fully benefit from this contract, which is terminable by the automotive supplier for any reason, subject to a cancellation charge that includes, among others, a provision whereby the customer will reimburse the Company for its total capital investment less any depreciation taken. The Company's revenues from this contract are directly dependent on the ability of the automotive supplier to develop, market and sell its products in a timely, cost-effective manner. If the automotive supplier's needs decrease over the course of the contract, the Company's estimated revenues from this contract may also decrease. Even if the Company generates revenue from the project, the Company cannot guarantee that the project will be profitable, particularly if revenues from the contract are less than expected.

Manufacturing companies often take advantage of lower volume months to shut down production to service machinery and tools. This is even more common in the automotive industry where many companies historically have shut down their operations for a portion of the months of July and December. The Company expects this practice to continue. To the extent our customers choose to shut down their operations, for these or other reasons, the Company's quarterly operating results could fluctuate and be materially, adversely affected.

Other examples of these risks, uncertainties, and other factors include, without limitation, the following: risks associated with the identification of suitable acquisition candidates and the successful, efficient execution and integration of such acquisitions, the ability of the Company to achieve positive results due to competition, decisions by customers to cancel or defer orders for its products that previously had been accepted, recent increases and possible further increases in the cost of the Company's raw materials and energy that the Company may not be able to pass through to its customers, other economic conditions that affect sales of the products of the Company's packaging customers, the ability of the Company to obtain new customers, evolving customer requirements, difficulties associated with the roll-out of new products, the costs of compliance with Sarbanes-Oxley related requirements 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:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

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 automotive, computers and electronics, medical, aerospace and defense, industrial and consumer markets.

Despite soft sales in the first half of 2007, the Company significantly improved its profit margins throughout the year, enabling it to generate record annual earnings. The Company attributes its profit margin improvements to improvements in the quality of its book of business and reductions

in manufacturing costs. Efforts to further improve the quality of its book of business and reduce manufacturing costs remain key tenets of the Company's strategic business plan.

On January 18, 2008, the Company acquired Stephenson & Lawyer, Inc., or S&L, a Grand Rapids, Michigan-based foam fabricator. S&L was consolidated into the Company's financial statements effective as of January 1, 2008. Operating out of a 255,000-square-foot manufacturing plant, S&L specializes in the fabrication of technical urethane foams. In addition to significantly adding to the Company's real estate, S&L brings to the Company access to this family of foams, modern manufacturing capabilities and a seasoned management team. The acquisition is an example of the Company's dual strategy of growing its top line organically through a focused marketing plan as well as through strategic acquisitions.

Sales:

Sales:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

Sales for the three-month period ended March 31, 2008, were \$28.0 million or 27.2 % above sales of \$22.0 million for the same period in 2007. Sales for the three-month period ended March 31, 2008, include sales of S&L. Excluding sales of S&L, sales for the three-month period ended March 31, 2008, increased \$2.5 million, or 11.1%. The increase in sales is primarily due to increased sales to a key customer in the electronics industry (Packaging segment) of approximately \$1.3 million and increased sales of molded fiber packaging products (Packaging segment) of approximately \$600,000.

Gross Profit:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

Gross profit as a percentage of sales (gross margin) improved to 24.6% for the three-month period ended March 31, 2008, from 20.9% from the three-month period of 2007. The improvement in gross margin for the period is primarily due to continued manufacturing efficiency initiatives and improvements to the quality of the Company's book of business (approximately 2.1% improvement in gross margin across both business segments) as well as the leveraging of fixed overhead costs with higher sales (approximately 1.5% improvement in gross margin across both business segments).

Selling, General and Administrative Expenses:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

Selling, General and Administrative expenses (SG&A) increased to \$4.9 million or 17.6% of net sales for the three-month period ended March 31, 2008, compared to \$3.6 million or 16.4% of net sales in the same period in 2007. The increase in SG&A dollars reflects additional SG&A associated with S&L (Component Products segment) of approximately \$600,000, additional selling expenses of approximately \$250,000 (both business segments) as well as normal inflationary activity.

Other Expenses:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

Minority interest earnings were approximately \$16,000 for the three-month period ended March 31, 2008, compared to approximately \$25,000 in the same respective periods last year.

Net interest expense declined for the three-month period ended March 31, 2008, to approximately \$98,000 from \$153,000 in the same period last year. This decline is primarily due to lower average borrowings, interest rate reductions, and interest income from invested cash.

The Company recorded a tax expense of approximately 38% of pre-tax income for both the three-month periods ended March 31, 2008 and 2007.

Liquidity and Capital Resources:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

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

At March 31, 2008, and December 31, 2007, the Company's working capital was approximately \$13.8 million and \$15.0 million, respectively. The decline in working capital for the three-month period ended March 31, 2008, is primarily due to the use of \$5.2 million of cash to acquire Stephenson & Lawyer in January, 2008, net of working capital acquired of approximately \$2.6 million. As a component of consolidating UDT's assets, the Company included \$207,243 in cash at March 31, 2008. Although this cash balance is not legally restricted, the Company does not use this cash in its operations.

Net cash used by operations for the three-month period ended March 31, 2008 was approximately \$304,000 and net cash provided by operations for the three-month period ended March 31, 2007, was approximately \$1.0 million. The change in cash provided by operations was primarily attributable to an increase in accounts receivable of approximately \$1.5 million during the three-month period ended March 31, 2008 compared to a reduction in receivables during the three-month period ended March 31, 2007. The increase in receivables during the current period is primarily due to strong first quarter sales. Cash used in investing activities during the three-month period ended March 31, 2008, was approximately \$5.8 million, which primarily was the result of the acquisition of Stephenson & Lawyer (net of cash acquired) for approximately \$5.2 million and normal additions of manufacturing machinery and equipment.

On February 28, 2003, the Company obtained a credit facility, which was amended effective March 24, 2004, June 28, 2004, and November 21, 2005, to reflect, among other things, changes to certain financial covenants. The amended facility is comprised of: (i) a revolving credit facility of \$17 million that is collateralized by the Company's accounts receivable and inventory; (ii) a term loan of \$3.7 million with a 7-year straight-line amortization that is collateralized by the Company's property, plant and equipment (excluding UDT's property, plant and equipment); and (iii) a term loan of \$2.3 million with a 15-year straight-line amortization that is collateralized by a mortgage on the Company's real estate located in Georgetown, Massachusetts. Extensions of credit under the revolving credit facility are subject to available collateral based upon accounts receivable and inventory levels. Therefore, the entire \$17 million may not be available to the Company. As of March 31, 2008, based upon no revolving credit facility borrowings outstanding and collateral levels, the Company had availability of approximately \$13.7 million under this facility. The amount of availability can fluctuate significantly. The amended credit facility calls for interest of Prime or LIBOR plus a margin that ranges from 1.0% to 1.5%, depending upon the Company's operating performance. At March 31, 2008, all borrowings under this credit facility had interest computed at Prime or LIBOR plus 1.0%. Under the amended credit facility, the Company is subject to certain financial covenants including maximum capital expenditures and minimum fixed charge coverage. As of March 31, 2008, the Company was in compliance with all of these covenants. The Company's \$17 million revolving credit facility, as amended, is due February 28, 2009; the \$3.7 million term loan, and the \$2.3 million mortgage are due November 21, 2011. At March 31, 2008, the interest rate on these facilities ranged from 4.0% to 5.9%.

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

As a result of the consolidation of UDT, a mortgage note dated May 22, 2007, collateralized by the Florida facility, is included within long-term debt in the Consolidated Financial Statements. The note had an original principal balance of \$786,000, and calls for 180 monthly payments of \$7,147. The interest rate is fixed at approximately 7.2%. Payments on this note are funded through rent payments that the Company makes on its Alabama and Florida facilities. The Company is not a guarantor and is not subject to any financial covenants under this mortgage note.

At March 31, 2008, the Company also had capital lease obligations of approximately \$2.1 million. At March 31, 2008, the current portion of all debt including term loans and capital lease obligations was approximately \$1.4 million.

The Company had book overdrafts of approximately \$2.0 million and \$2.2 million at March 31, 2008, and December 31, 2007, respectively. The Company classifies book overdrafts within Accounts Payable on its Condensed Consolidated Balance Sheets.

The Company believes that its existing resources, including its revolving line of credit facility together with cash expected to be generated from operations and funds expected to be available to it through any necessary equipment financing, will be sufficient to fund its cash flow requirements through at least the next twelve months. However, there can be no assurances that the Company will be able to obtain such financing, or that such financing will be available at favorable terms, if at all.

The Company's primary credit facility expires in February 2009. During 2008, the Company plans to extend the term of its primary credit facility or secure a new credit facility. Although the Company believes it will be successful in accomplishing this objective, there can be no assurances that such financing will be available at favorable terms, if at all.

Commitments, Contractual Obligations, and Off-balance Sheet Arrangements:

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

The following table summarizes the Company's commitments, contractual obligations, and off-balance sheet arrangements at March 31, 2008, and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

Payments due in:	Operating Leases	Capital Leases	Term Loans	Mortgages	UDT Mortgage	Debt Interest	Supplemental Retirement Plan	Total
2008	\$ 1,324,721	\$ 533,075	\$ 394,929	\$ 117,000	\$ 24,620	\$ 332,088	\$ 116,300	\$ 2,842,733
2009	1,353,216	702,765	526,572	156,000	33,896	358,906	105,000	3,236,355
2010	1,105,329	671,839	526,572	156,000	36,417	265,408	101,000	2,862,565
2011	830,468	238,060	526,572	156,000	39,120	185,922	80,000	2,056,142
2012 & thereafter	1,449,216		482,688	1,391,000	627,626	375,560	330,800	4,656,890
	\$ 6,062,950	\$ 2,145,739	\$ 2,457,333	\$ 1,976,000	\$ 761,679	\$ 1,517,884	\$ 733,100	\$ 15,654,685

Payments on the UDT mortgage note are funded through rent payments made by the Company on the Company's Alabama and Florida facilities.

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 in the

year ended December 31, 2007, 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 March 31, 2008, 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

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

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 procedures (as defined in SEC Rule 13a-15 or 15d-15). Based upon that evaluation, they concluded that the disclosure controls and procedures were effective.

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

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

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, 2007, in Part I Item 1A under Risk Factors and in Part II Item 7 under Management's Discussion and Analysis of Financial Condition and Results of Operations. There has been no material change from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

ITEM 6:

EXHIBITS

Edgar Filing: UFP TECHNOLOGIES INC - Form 10-Q

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

20

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	May 13, 2008	By: /s/ R. Jeffrey Bailly R. Jeffrey Bailly Chairman, Chief Executive Officer, President, and Director (Principal Executive Officer)
Date	May 13, 2008	By: /s/ Ronald J. Lataille Ronald J. Lataille Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

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