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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

UFP Technologies, Inc.

Rating: Speculative Buy

John Nobile
April 3, 2014

UFPT $25.99 — (NASDAQ CM)

	2012A	2013A	2014E	2015E
Revenues (millions)	$131.0	$139.2	$146.2	$153.5
Earnings per share (diluted)	$1.55	$1.59	$1.58	$1.80

52-Week range	$26.60 – $18.06	Fiscal year ends:	December
Shares outstanding as of 3/7/14	7.0 million	Revenue per share (TTM)	$19.60
Approximate float	5.3 million	Price/Sales (TTM)	1.3X
Market capitalization	$182 million	Price/Sales (2015)E	1.2X
Tangible book value/share	$11.15	Price/Earnings (TTM)	16.3X
Price/tangible book	2.3X	Price/Earnings (2015)E	14.4X

UFP Technologies designs and manufactures high performance cushion packaging and molded fiber products and specialty foam and plastic products. These products are used as protection for fragile and valuable items, and are sold primarily to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets. (www.ufpt.com)

Key investment considerations:

Reiterating Speculative Buy rating and maintaining twelve-month price target of $28.00.

An aging population, increasing automotive demand, and innovation in new electronic products should drive growth over the next five years in UFPT's principal end markets.

Growth in sales to the medical product industry has been strong. With 7% annual growth projected for this industry and over 1/3 of the company's sales to this market, we project this to be the primary driver of growth for the company in 2014 and 2015.

A planned plant consolidation in 3Q14 is projected to reduce costs by over $0.7 million annually driving gross margin improvement to 29.5% by 2015 from 29.2% in 2013.

For 2014, we project revenue of $146.2 million ($150 million previously) and EPS of $1.58 ($1.75 previously). Our lower revenue projection stems from continued pressure on military sales. Our reduced net income projection reflects $1.5 million in one-time expenses related to a planned plant consolidation.

For 2015, we project revenue of $153.5 and EPS of $1.80. Revenue should be driven primarily by continued demand for medical products.

4Q13 revenue (reported 3/14/14) increased 5% to $35 million and EPS increased to $0.47 from $0.45 in the year-earlier period. We estimated 4Q13 revenue of $36 million and EPS of $0.41.

Please view our disclosures on pages 12 - 14.

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and maintaining our **twelve-month price target of $28.00.**

UFPT is currently trading at a multiple of 16X TTM earnings while its direct competitors are trading at an average multiple of 19X TTM earnings (excludes Sealed Air's 56X multiple). We believe the disparity is largely due to UFPT's relatively small float and trading volume. The stocks of UFPT's primary competitors show market values of $2.5 billion to $6.9 billion. Applying the current PE multiple to our 2015 earnings estimate of $1.80 per share gives us a price target of approximately $28.00.

In our view, this stock is suitable for highly risk tolerant investors. The stock price is up over 30% in the past year and with the earnings we project, we see limited upside potential. With most of the company's sales to economically sensitive end markets, any slowing in economic growth could reduce our earnings expectations.

Business

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures engineered packaging utilizing molded fiber, vacuum-formed plastics, and molded and fabricated foam plastic products. The company also designs and manufactures engineered component products using laminating, molding, and fabricating technologies. UFPT's sales are to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the US.

Components products accounted for 67% of sales in 2013 while packaging products comprised 33%. An estimated 35% of sales are to the medical device industry for applications such as compression-molded foam finger splints, orthopedic foam components, and dental fluoride trays. UFPT's other end markets (automotive, defense, electronics, and industrial) each account for an estimated 10% to 20% of the company's revenue.

The company's high-performance cushion packaging products provide protection for fragile and valuable items, and are sold primarily to original equipment and component manufacturers. Molded fiber products are used for packaging high volume consumer goods, including computer components, medical devices, other light electronics, candles, and health and beauty products.

UFPT's component products include automotive interior trim, athletic padding, industrial safety belts, components for medical equipment and devices, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

The company differentiates itself through the design and production of customized foam case inserts (pictured at right). Through a combination of materials, technology, and engineering, the company is able to produce unique case inserts for surgical instruments, customized repair kits, electronic parts, emergency response equipment, and many other applications.

Industry Outlook

In January 2014, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 1.8% to $10.4 billion over the six years to 2019. However, UFP Technologies' revenue should grow at a higher rate given end market growth driven by an aging population, increasing automotive demand, and innovative new electronics products.

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors that should influence the medical device industry over the next five years. Incidences of disease and disorders increase with age. For example, people aged 65 and older account for 40% of the total population diagnosed with some form of heart disease or arthritis, according to the Center for Disease Control.

The Patient Protection and Affordable Care Act (PPAC) has created as degree of uncertainty for medical device companies. Healthcare reform has tightened the pricing environment for these companies and may pressure pricing across the board. However, PPAC may benefit the industry as it aims to reduce the number of uninsured people.

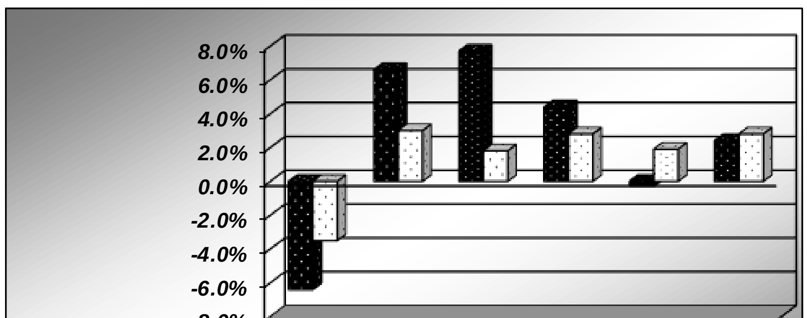
As of July 1, 2013, a new Medicare competitive bidding program on durable medical equipment went into effect. Under this program, suppliers submit bids to provide certain medical equipment and supplies at a lower price than what Medicare previously paid. Medicare uses the lower prices on those bids to set the amount it will pay for equipment and supplies. Reduced pricing for medical equipment could have an adverse effect on prices medical equipment manufacturers are willing to pay for packaging products. However, the company has not yet seen any impact from this.

The Patient Protection and Affordable Care Act imposed a 2.3% excise tax on the sale price of medical devices effective January 1, 2013. Medical device manufacturers have been lobbying against the excise tax and on March 21, 2013 the Senate voted to repeal it. The outcome of the vote was not successful. While this tax is expected to squeeze profit margins of medical device manufacturers, the company said the tax imposed by this Act did not adversely impact its pricing to the medical market.

In January 2014, IBISWorld forecasted medical device industry average annual sales growth of approximately 7% to $55 billion during the six years to 2020.

In January 2014, IBISWorld projected the US car and automobile industry to show average annual sales growth of 1.4% to $110.7 billion in the six years to 2020. Growth will be driven by renewed consumer spending and a move toward green (hybrid and electric fuel-efficient) vehicles. However, a slowing US economy could adversely impact sales of cars through our forecast horizon.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which are economically sensitive. The chart at right shows how US consumer electronics sales were affected by changes in the economy over the past five years with the Consumer Electronics Association's projections for 2014.



	2009	2010	2011	2012	2013	2014e
US CE Sales Growth	-6.4%	6.6%	7.7%	4.4%	-0.3%	2.4%
US GDP Growth	-3.5%	3.0%	1.8%	2.8%	1.9%	2.8%

Source: Consumer Electronics Association: International Monetary Fund

In January 2014, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.7% to $84.1 billion during the six years to 2020. This growth will be driven by new technologies (like tablet computers and mobile devices) and renewed consumer spending. In March 2014, the US Census Bureau reported that new orders for computers and electronics were up 3.7% sequentially in January 2014. However, computer and electronics orders decreased sequentially by 8.7% in December 2013 following a modest sequential increase of 0.8% in November 2013. If the US economic recovery stalls, consumer spending could fall below current projections.

UFP Technologies' aerospace and defense products are used in applications such as protective cases and inserts for military equipment (i.e. tools used for large engine rebuilds), uniform and gear components such as backpacks and duty belts used by soldiers in combat, and explosion suppressant foams used in fuel systems of aircrafts. US defense spending in 2013 declined by 7% and is projected to remain relatively flat in 2014 and 2015 according to the most recent US Department of Defense budget request (March 2014). This reduced level of defense spending is likely to have an adverse effect on UFPT's sales to this market.

Economic Outlook

Most of UFPT's sales are to economically sensitive end markets.

In January 2014, the International Monetary Fund (IMF) raised its global economic growth forecast to 3.7% in 2014, up from an earlier (October 2013) growth forecast of 3.6%. Global growth is projected to further increase to 3.9% in 2015. Driving this growth will be a recovery in the advanced economies. The IMF said that global economic activity picked up in the second half of 2013 at a somewhat stronger pace than previously anticipated.

In February 2014, the Bureau of Economic Analysis revised US GDP growth downward to 2.4% from an earlier estimate of 3.2%. Some of the factors contributing to the downward revision were a deceleration in private investment and a large decrease in Federal spending. However, the estimate did reflect positive contributions from personal consumption expenditures and exports.

The IMF's 2014 economic growth estimate for the US was revised upward to 2.8% from an earlier (October 2013) growth forecast of 2.6%. The IMF said that growth in 2014 will be driven by domestic demand. However, 2015 US growth projections have been lowered to 3% from an earlier (October 2013) growth forecast of 3.4% due to a tighter fiscal stance as the recent budget agreement implies that most of the sequester cuts will remain in place in 2015 instead of being reversed as previously assumed.

The Federal Reserve's (Fed) latest economic projection for the US economy in 2014 mirrors the IMF's current projection. In March 2014, the Fed projected the US economy to grow at a slightly slower but steady pace in 2014. The Fed projects US growth of 2.8% to 3% this year, a bit lower than its December 2013 projection of between 2.8% and 3.2%.

As the company sells 95% of its products in the US, a growing US economy should bode well for sales of the company's products through our forecast horizon.

Competition

The packaging industry is highly competitive. While there are several national companies that sell interior packaging, the company's primary competition for its packaging are smaller independent regional manufacturing companies. The company's foam and fiber packaging products also compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The company's component products compete with smaller companies that typically concentrate on production of component products for specific industries.

Proximity is a key competitive factor in the packaging business. Companies shipping products typically buy packaging from vendors that are relatively close to their manufacturing facilities to increase shipping efficiency and decrease costs. As many US companies move their manufacturing operations overseas, particularly to the Far East, the associated packaging business often follows. UFP Technologies has lost customers in the past and may lose customers in the future as a result of customers moving their manufacturing facilities offshore, then hiring competitors that operate packaging-production facilities perceived to be more territorially advantageous.

Other competitive factors are price, product performance, product reliability, and customer service. We believe the company's ability to custom design proprietary manufacturing equipment in conjunction with its machinery suppliers enables the company to effectively differentiate its products. For example, UFPT has custom-designed its own lamination machines allowing the company to achieve adhesive bonds between cross-linked foam and fabric and other materials that do not easily combine. These specialty laminates typically command higher prices than traditional foam products.

Some of UFPT's public competitors include Graphic Packaging, Packaging Corp. of America, Greif, Bemis Company, and Sealed Air Corp. TTM sales and gross margins for UFP Technologies and its public competitors are shown at right.

Symbol	Sales TTM	YoY % Change	Gross Margin
Graphic Packaging	$4.5B (12/13)	3%	16.2%
Packaging Corp. of America	$3.7B (12/13)	29%	23.4%
Greif	$4.4B (1/14)	2%	19.1%
Bemis Company	$5.0B (12/13)	-2%	19.3%
Sealed Air Corp.	$7.7B (12/13)	2%	33.6%
UFP Technologies	$139.2M (12/13)	6%	29.2%

Source: Company filings

UFPT's margins are at the high end of the range for our comparison group, due arguably to the company's ability to differentiate its products. Most of the company's competitors primarily offer conventional shipping and packaging products (i.e. shipping containers and boxes) or flexible packaging products (i.e. plastic bags, films and laminates) whereas UFP Technologies offers products that are custom designed and engineered for specific applications (i.e. customized foam case inserts for the electronics industry).

Projections

2014 Forecast

For 2014, we project revenue of $146.2 million ($150 million previously) and net income of $11.3 million or $1.58 per share ($12.6 million or $1.75 per share previously). Our lower revenue projection reflects continued pressure on military budgets while our net income projection reflects $1.5 million in one-time expenses related to a planned plant consolidation. In July 2014, the company plans to consolidate its Glendale Heights, Illinois facility into its Grand Rapids, Michigan facility. The plant consolidation is estimated to reduce costs by over $0.7 million annually starting in 4Q14 which should result in moderate gross margin improvement to 29.4% from 29.2% in 2013. SG&A expenses should increase to $24.1 million from $23.2 million in 2013 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.5% due to the relatively fixed nature of SG&A expenses (approximately 3% related to commission expense according to management) against increased sales. Taxes are estimated at 34%.

In 2014, we project $15.3 million cash from operations consisting of cash earnings of $16.7 million and increases in working capital of $1.4 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $8 million to $45.3 million at the end of 2014.

2015 Forecast

For 2015, we project revenue of $153.5 and net income of $13.2 million or $1.80 per share. Revenue should be driven primarily by continued demand for medical products. A full year of costs savings from the plant consolidation should result in gross margins of 29.5%. SG&A expenses should increase to $25.1 million from $24.1 million in 2014 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.4% due to the relatively fixed nature of SG&A expenses. Taxes are estimated at 34%.

In 2015, we project $18 million cash from operations consisting of cash earnings of $18.9 million and increases in working capital of $0.9 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $10.6 million to $55.9 million at the end of 2015.

4Q and FY13 Financial Results

4Q13 - Sales increased 5% to $35 million. Net income increased to $3.4 million or $0.47 per share from $3.2 million or $0.45 per share. We projected 4Q13 sales of $36 million and net income of $3 million or $0.41 per share.

The increase in sales was primarily due to an increase in sales to the medical industry and molded fiber packing sales. The increase in sales to the medical industry was mostly due to the December 2012 acquisition of Packaging Alternatives Corporation (PAC) while molded fiber packaging sales benefited from continued demand for environmentally friendly packaging and the company's expanded capacity in this area.

Gross margins increased to 31% from 30.2% primarily due to increased higher-margin medical sales. SG&A expenses remained relatively flat at $5.5 million. The company showed an effective income tax rate of 35.7% in 4Q13.

2013 - Sales increased 6% to $139.2 million. Net income increased to $11.3 million or $1.59 per share from $10.9 million or $1.55 per share.

The increase in sales was primarily due to an increase in sales to the medical industry and molded fiber packing sales. The increase in sales to the medical industry was mostly due to the December 2012 acquisition of Packaging Alternatives Corporation (PAC) while molded fiber packaging sales benefited from continued demand for environmentally friendly packaging and the company's expanded capacity in this area.

Gross margins remained flat at 29.2%. SG&A expenses increased to $23.2 million from $21.5 million primarily due to PAC operations. The company showed an effective income tax rate of 34.4%.

Liquidity

The company has a strong balance sheet. Total debt is $3.8 million, tangible equity is $76.9 million, and cash (approximately $5.41 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.2 for the packaging and containers industry.

Cash of $16.1 million from operations in 2013 consisted mainly of $16.2 million cash earnings. This cash covered capital expenditures of $5.8 million and $5.9 million used in financing activities (primarily debt repayments), increasing cash by $3.8 million to $37.3 million as of December 31, 2013.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of December 31, 2013. The credit facility bears interest at LIBOR plus 1.0% to 1.5% or, 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 company's revolving credit facility matures November 30, 2018. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant which the company was in compliance with at December 31, 2013.

In October 2012, UFPT entered into a $5 million 1.83% fixed rate loan agreement to finance the purchase of two new molded fiber machines. The outstanding balance was $3.8 million as of December 31, 2013. The loan is secured by the related molded fiber machines.

Risks

In our view, these are the principal risks underlying the stock:

Dependence on a small number of customers
The company's top ten customers represented approximately 28% of total revenues in 2013. The loss of sales to a large customer would have a material adverse effect on projected financial results.

Competition
The packaging and component products industries are highly competitive. The company's primary competition for its packaging products has been from smaller independent regional manufacturers. UFPT's component products face competition from smaller companies that typically concentrate on production of component products for specific industries.

Economic conditions
Poor economic conditions could negatively impact sales of the company's packaging customers.

Environmental considerations
Future government action may impose restrictions affecting the industries in which the company operates. There can be no assurance that any such action will not adversely impact UFP Technologies.

Liquidity
With only 7 million shares outstanding and 5.3 million in the float, liquidity issues must be considered. Average daily volume has been approximately 16,900 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

Miscellaneous
The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Balance Sheets
(in thousands $)

	2011A	2012A	2013A	2014E	2015E
Cash and cash equivalents	29,849	33,479	37,303	45,278	55,913
Receivables	15,619	17,836	17,032	17,886	18,779
Inventories	9,758	9,695	11,048	11,577	12,129
Prepaid expenses	559	654	690	928	928
Refundable income taxes	1,086	1,714	1,537	1,974	1,974
Deferred income taxes	1,169	1,116	1,222	1,131	1,131
Total current assets	58,040	64,494	68,832	78,773	90,853
Net property, plant and equipment	13,346	23,318	25,507	27,612	29,421
Goodwill	6,481	7,039	7,322	7,322	7,322
Intangible assets	399	2,084	1,346	1,466	1,466
Other assets	1,455	1,682	2,013	1,881	1,881
Total assets	**79,721**	**98,617**	**105,020**	**117,054**	**130,943**
Current portion of long-term debt	581	1,550	976	976	976
Accounts payable	3,344	4,088	3,081	3,228	3,382
Accrued expenses	5,540	7,593	8,265	8,679	9,113
Total current liabilities	9,465	13,231	12,322	12,884	13,471
Long-term debt	5,639	8,314	2,867	1,867	867
Deferred income taxes	1,292	1,589	2,436	2,436	2,436
Other liabilities	1,340	2,222	1,805	1,805	1,805
Total liabilities	**17,736**	**25,356**	**19,430**	**18,992**	**18,579**
Total stockholders' equity	**61,985**	**73,261**	**85,590**	**98,062**	**112,364**
Total liabilities & stockholders' equity	**79,721**	**98,617**	**105,020**	**117,054**	**130,943**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2011A	2012A	2013A	2014E	2015E
Net sales	127,244	130,962	139,223	146,200	153,500
Cost of sales	90,999	92,777	98,574	103,290	108,218
Gross profit	36,245	38,185	40,649	42,910	45,283
Extraordinary items	(839)	(12)	11	1,450	-
SG&A	21,368	21,531	23,240	24,075	25,125
Operating income	15,716	16,666	17,398	17,385	20,158
Non-operating expenses	(27)	(92)	(205)	(200)	(200)
Income before taxes	15,689	16,574	17,193	17,185	19,958
Income tax	4,906	5,679	5,917	5,843	6,786
Net Income / (Loss)	10,346	10,895	11,276	11,342	13,172
EPS	1.48	1.55	1.59	1.58	1.80
Shares Outstanding	6,999	7,028	7,105	7,188	7,300
Margin Analysis					
Gross margin	28.5%	29.2%	29.2%	29.4%	29.5%
SG&A	16.8%	16.4%	16.7%	16.5%	16.4%
Operating margin	12.4%	12.7%	12.5%	11.9%	13.1%
Pretax margin	12.3%	12.7%	12.3%	11.8%	13.0%
Tax rate	31.3%	34.3%	34.4%	34.0%	34.0%
Year / Year Growth					
Total Revenues	5.4%	2.9%	6.3%	5.0%	5.0%
Net Income	11.9%	5.3%	3.5%	0.6%	16.1%
EPS	8.0%	4.9%	2.4%	(0.6)%	14.3%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Quarterly Income Statements 2013 - 2015E
(in thousands $)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14E	6/14E	9/14E	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	33,697	35,832	34,700	34,993	139,223	35,200	37,700	36,500	36,800	146,200	37,000	39,600	38,300	38,600	153,500
Cost of sales	24,795	25,113	24,538	24,128	98,574	24,922	26,692	25,733	25,944	103,290	26,085	27,918	27,002	27,213	108,218
Gross profit	8,902	10,719	10,162	10,865	40,649	10,278	11,008	10,768	10,856	42,910	10,915	11,682	11,299	11,387	45,283
Extraordinary items	-	11	-	-	11	-	-	1,450	-	1,450	-	-	-	-	-
SG&A	5,946	6,075	5,679	5,540	23,240	5,800	6,225	6,025	6,025	24,075	6,050	6,475	6,275	6,325	25,125
Operating income	2,956	4,633	4,483	5,325	17,398	4,478	4,783	3,293	4,831	17,385	4,865	5,207	5,024	5,062	20,158
Non-operating expenses	(40)	(45)	(43)	(76)	(205)	(50)	(50)	(50)	(50)	(200)	(50)	(50)	(50)	(50)	(200)
Income before taxes	2,916	4,588	4,440	5,249	17,193	4,428	4,733	3,243	4,781	17,185	4,815	5,157	4,974	5,012	19,958
Income tax	886	1,606	1,554	1,872	5,917	1,506	1,609	1,102	1,626	5,843	1,637	1,753	1,691	1,704	6,786
Net Income / (Loss)	2,030	2,982	2,886	3,377	11,276	2,923	3,124	2,140	3,155	11,342	3,178	3,404	3,283	3,308	13,172
EPS	0.29	0.42	0.41	0.47	1.59	0.41	0.44	0.30	0.44	1.58	0.44	0.47	0.45	0.45	1.80
Shares Outstanding	7,088	7,090	7,112	7,133	7,105	7,150	7,175	7,200	7,225	7,188	7,250	7,275	7,300	7,375	7,300
Margin Analysis															
Gross margin	26.4%	29.9%	29.3%	31.0%	29.2%	29.2%	29.2%	29.5%	29.5%	29.4%	29.5%	29.5%	29.5%	29.5%	29.5%
SG&A	17.6%	17.0%	16.4%	15.8%	16.7%	16.5%	16.5%	16.5%	16.4%	16.5%	16.4%	16.4%	16.4%	16.4%	16.4%
Operating margin	8.8%	12.9%	12.9%	15.2%	12.5%	12.7%	12.7%	9.0%	13.1%	11.9%	13.1%	13.1%	13.1%	13.1%	13.1%
Pretax margin	8.7%	12.8%	12.8%	15.0%	12.3%	12.6%	12.6%	8.9%	13.0%	11.8%	13.0%	13.0%	13.0%	13.0%	13.0%
Tax rate	30.4%	35.0%	35.0%	35.7%	34.4%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Year / Year Growth															
Total Revenues	5.5%	6.4%	8.5%	4.9%	6.3%	4.5%	5.2%	5.2%	5.2%	5.0%	5.1%	5.0%	4.9%	4.9%	5.0%
Net Income	(13.6)%	8.6%	11.2%	5.4%	3.5%	44.0%	4.8%	(25.8)%	(6.6)%	0.6%	8.7%	8.9%	53.4%	4.8%	16.1%
EPS	(14.3)%	8.0%	10.6%	4.3%	2.4%	42.7%	3.5%	(26.8)%	(7.8)%	(0.6)%	7.2%	7.5%	51.3%	2.7%	14.3%

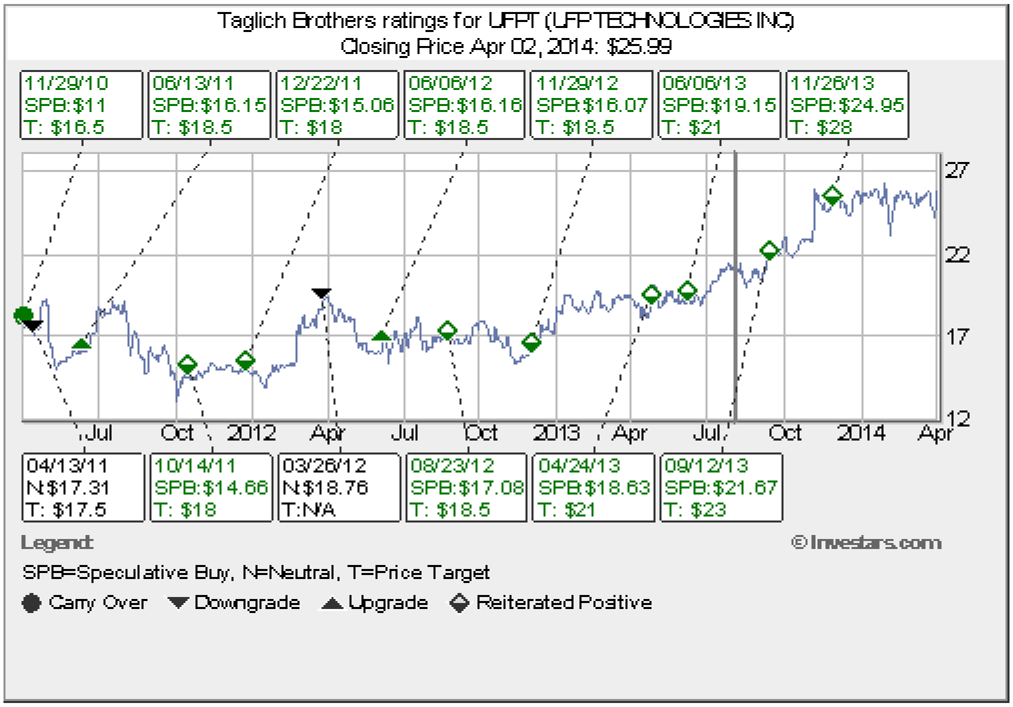
Source: Company filings and Taglich Brothers' estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)

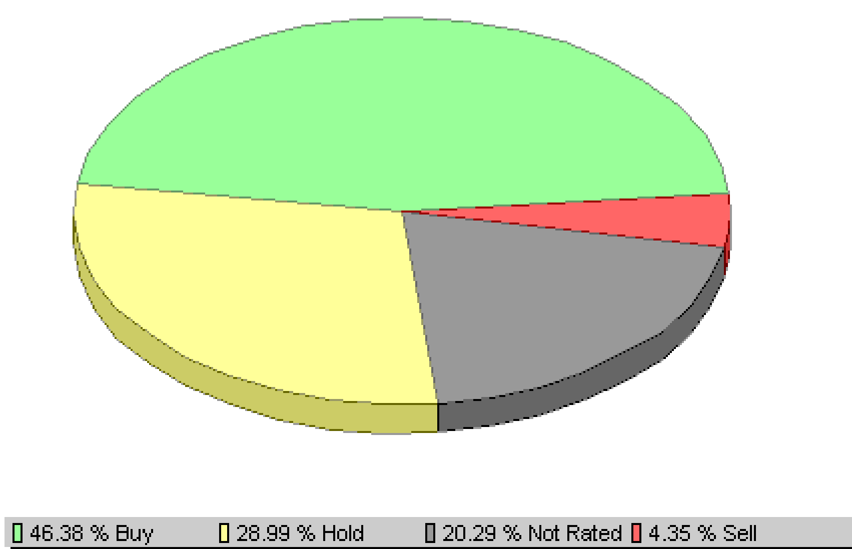
	2011A	2012A	2013A	2014E	2015E
Net income	10,784	10,895	11,276	11,342	13,172
Depreciation & amortization	2,781	2,928	4,084	4,395	4,691
Gain on acquisition	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(839)	(12)	11	-	-
Share-based compensation	1,089	860	924	1,000	1,000
Stock issued in lieu of compensation	55	-	-	-	-
Excess tax benefit on share-based compensation	(700)	(832)	(818)	(832)	(832)
Deferred income taxes	452	610	740	803	832
Changes in assets and liabilities					
Receivables	(985)	(842)	804	(854)	(893)
Inventories	(1,714)	801	(1,353)	(529)	(552)
Prepaid expenses	476	(65)	(36)	(238)	-
Refundable income taxes	327	(695)	994	(437)	-
Accounts payable	507	384	(1,007)	147	154
Accrued expenses and other	(440)	2,143	1,272	414	433
Retirement and other liabilities	(12)	190	(417)	-	-
Other assets	(65)	(203)	(368)	132	-
Net Cash Provided by Operations	**11,716**	**16,162**	**16,106**	**15,345**	**18,005**
Additions to property, plant and equipment	(3,741)	(11,994)	(5,830)	(6,500)	(6,500)
Redemption of cash value life insurance	-	-	37	-	-
Proceeds from sale of property, plant and equipment	1,223	86	1	-	-
Acquisitions	-	(3,596)	(600)	-	-
Net Cash Used in Investing	**(2,518)**	**(15,504)**	**(6,392)**	**(6,500)**	**(6,500)**
Proceeds from long-term borrowings	-	4,384	580	-	-
Distribution to United Development Company partners	(289)	(1,196)	-	-	-
Tax benefit from exercise of non-qualified stock options	700	832	818	818	818
Proceeds from exercise of stock options	250	365	191	191	191
Payment of statutory withholdings for stock options exercised	(830)	(672)	(879)	(879)	(879)
Principal repayments of long-term debt	(1,282)	(740)	(6,601)	(1,000)	(1,000)
Principle repayments of capital lease obligations	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(1,451)**	**2,973**	**(5,891)**	**(870)**	**(870)**
Net Change in Cash	**7,747**	**3,631**	**3,823**	**7,975**	**10,635**
Cash - Beginning of Period	**22,102**	**29,849**	**33,480**	**37,303**	**45,278**
Cash - End of Period	**29,849**	**33,480**	**37,303**	**45,278**	**55,913**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	8
Hold	1	13
Sell		
Not Rated		

Important Disclosures

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

Graphic Packaging (NYSE: GPK)
Packaging Corp. of America (NYSE: PKG)
Greif (NYSE: GEF)
Bemis Company (NYSE: BMS)
Sealed Air Corp. (NYSE: SEE)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.