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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: Neutral

John Nobile
April 13, 2011

UFPT $17.31 — (NASDAQ CM)

	2009A	2010A	2011E	2012E
Revenues (millions)	$99.2	$120.8	$130.0	$138.7
Earnings per share (diluted)	$0.94	$1.37	$1.48	$1.63

52-Week range	$21.59 – $8.26	Fiscal year ends:	December
Shares outstanding as of 3/2/11	6.4 million	Revenue per share (TTM)	$17.87
Approximate float	4.6 million	Price/Sales (TTM)	1.0X
Market capitalization	$111 million	Price/Sales (2012)E	0.9X
Tangible book value/share	$6.81	Price/Earnings (TTM)	12.6X
Price/tangible book	2.5X	Price/Earnings (2012)E	10.6X

UFP Technologies is a designer and manufacturer of a broad range of high performance cushion packaging and molded fiber products and specialty foam and plastic products. These products are custom designed and fabricated or molded to provide protection for fragile and valuable items, and are sold primarily to original equipment manufacturers in the computer, electronics, automotive, medical/pharmaceutical and industrial markets. (www.ufpt.com)

Key investment considerations:

We are lowering our rating on UFP Technologies (UFPT) to Neutral from Speculative Buy as we believe the company is fairly valued based on a multiple of 12X applied to our discounted 2012 EPS forecast.

Growth is projected for UFPT's principal end markets, driven by rising incomes and new car model roll-outs, innovative new electronics products, and an aging population.

An improving economic environment should enable the company to continue growing, though not at its long-term annual growth rate of 8%. The gradual phase out (over a three year period) of a long-term program that was responsible for 9% of total sales in 2010 could reduce revenue growth rates to 7.6% in 2011 and 6.7% in 2012.

For 2011, we project revenue of $130.0 million and EPS of $1.48. We increased our estimates from revenue of $126.0 million and EPS of $1.38 primarily due to greater market acceptance of the company's products than originally expected and increased capacity utilization resulting in gross margin improvement to 29.4% from 29.0%.

For 2012, we project revenue of $138.7 million and EPS of $1.63 per share. We project further increases in capacity utilization will increase gross margins to 29.6%. We project increased SG&A expenses with the higher level of sales, however, SG&A expenses as a percentage of sales should decrease to 16.2% from 16.5%.

On February 23, 2011, UFPT reported Q4/10 sales increased 9% to $31.6 million while EPS remained flat at $0.45. We estimated Q4/10 sales of $31.5 million and EPS of $0.36. FY 2010 sales increased 22% to $120.8 million. Excluding the effect that acquisitions had on year-to-date results ($11.7 million additional revenue from acquisitions), revenues grew 10%. FY 2010 EPS was $1.37 versus $0.94 in 2009.

Please view our disclosures on pages 11 - 13.

Recommendation and Valuation

We are lowering our rating to **Neutral** from Speculative Buy on UFP Technologies as we believe the company is fairly valued based on a multiple of 12X applied to our discounted 2012 EPS forecast.

From 2004 to 2010, UFPT traded at an average earnings multiple of 12X. During that period, the stock's P/E ranged between 6X and 28X. UFPT's multiple is currently 13X and we believe the growth we are projecting should keep the multiple close to its historic average. Applying a multiple of 12X to our 2012 earnings of $1.63 per share discounted to a twelve-month value of $1.47 per share gives us a price target of approximately $17.50. We derived a discount factor of 11% using the company's beta of 1.58.

Industry Outlook

IBISWorld forecasts the urethane and foam products industry growth of 4.6% in 2011 and 4.2% in 2012. The industries that UFP sells to are projected to show growth going forward.

Projected growth in the automobile industry and a focus on creating lightweight and fuel-efficient vehicles indicates that there will be opportunities for foam components to establish a larger role in the automotive industry. In April 2011, Bloomberg reported that stronger demand is encouraging the auto industry to hire. A survey by Dun & Bradstreet said that automobile firms in the US expect demand for vehicles to continue to be high during the current financial year driven by rising income levels and new model roll-outs.

The Consumer Electronics Association projects industry shipment revenues will climb 4% to an all-time high of more than $182 billion in 2011 and will be driven by innovative new products like tablet computers and 3D displays. The industry analysis firm, Global Data, projects the global medical equipment industry to grow by more than 8% annually to exceed $490 billion in 2016. The primary driver of this growth is a continuously aging population ensuring a steady demand for medical equipment and healthcare services. Industry research firm Datamonitor projects the global aerospace and defense market to have a value of $937.5 billion in 2014, for a compound annual growth rate of approximately 5%.

We believe the current economic outlook supports moderate growth for the company going forward. The latest World Economic Outlook from the International Monetary Fund (IMF) said that although the global economic recovery advances, downside risks remain elevated. The IMF said that continued weakness in the U.S. real estate market, high commodity prices, and overheating in emerging markets were some of the factors that could hinder the global economic recovery. The IMF forecasts global economic activity to expand by 4.4% in 2011 and 4.5% in 2012.

Competition

The packaging industry is highly competitive. Competition is based primarily on 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 (NYSE: GPK), Packaging Corp. of America (NYSE: PKG), Greif (NYSE: GEF), Bemis Company (NYSE: BMS), Smurfit-Stone Container (NYSE: SSCC), and Sealed Air Corp. (NYSE: SEE). As a group, UFPT's competitors grew revenues at an average rate of approximately 15% in 2010 versus 22% for UFPT.

Projections

2011 Forecast

Over the past five years, UFPT's sales have grown twice as fast as the industry's 4%, reflecting an ability to find optimal fitting acquisition candidates and markets where its products add the most value. An improving economic environment should enable the company to continue growing, though not at its long-term annual growth rate of 8%. The gradual phase out (over a three year period) of a long-term program that was responsible for 9% of total sales in 2010 will diminish growth in the short-term to an estimated 7.6% in 2011 and 6.7% in 2012.

For 2011, we project revenue of $130.0 million and net income of $10.4 million or $1.48 per share. We previously estimated revenue of $126.0 million and net income of $9.7 million or $1.38 per diluted share. The increase in our estimates is primarily due to greater sales of the company's products in the US than originally expected. As mentioned earlier, UFPT grew revenues at a rate of 22% in 2010 while UFPT's competitors grew revenues at an average rate of approximately 15%. We believe this growth was due to a combination of strategic acquisitions and the company's ability to find niche markets for its products. Increased capacity utilization resulted in gross margin improvement to 29.4% from 29.0%.

We project increased SG&A expenses with the higher level of sales, however, SG&A expenses as a percentage of sales should decrease to 16.5% from 16.8%. Operating margins should increase to 12.9% from 11.6%. We are maintaining a tax rate projection of 37%.

In 2011, we project $14.9 million cash from operations driven by cash earnings of $14.9 million. Working capital changes were minimal as they were offset by a $1.4 million decrease in refundable income taxes. $4.2 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $2.0 million in acquisitions. Financing activities consist primarily of $0.9 million principal repayments of long-term debt. We project an increase in cash of $9.8 million for a year end cash balance of $34.2 million.

One of the ways in which the company differentiates itself is through the design and production of customized foam case inserts for the automotive, computers and electronics, medical, aerospace and defense, consumer, and industrial markets (see picture). 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. The company's ability to offer customized products should continue to drive growth.

2012 Forecast

The gradual phasing out of a program should temper growth resulting in 2012 revenue of $138.7 million and net income of $11.7 million or $1.63 per share. The company's ability to offer unique products should help offset in part the phase out an automotive program (components products segment) resulting in revenue growth of 6.7%. We project further increases in capacity utilization will improve gross margins from 29.4% to 29.8%. We project increased SG&A expenses with the higher level of sales, however, SG&A expenses as a percentage of sales should decrease to 16.2% from 16.5%. Operating margins should increase to 13.7% from 12.9%. We are maintaining a tax rate projection of 37%.

In 2012, we project $15.4 million cash from operations driven by cash earnings of $16.3 million and increases in working capital of $0.8 million. We project 44 Days Sales Outstanding in 2012 and Inventory Turnover of 11; both figures are in line with 2010 actual numbers and our 2011 estimates. $4.2 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $2.0 million in acquisitions. Financing activities consist primarily of $0.8 million principal repayments of long-term debt. We project an increase in cash of $10.4 million for a year end cash balance of $44.6 million.

4th Quarter and Fiscal 2010 Financial Results

For the fourth quarter ended December 31, 2010, sales increased 9% to $31.6 million. Net income was $3.1 million or $0.45 per diluted share in Q4/10 versus net income of $2.9 million or $0.45 per diluted share in Q4/09. The increase in sales was primarily due to increased demand for interior trim parts from the automotive industry as well as an increase in sales in the packaging segment due to the effect of an improved economic environment on demand for customers' parts. Although sales increased, Q4/10 gross margins decreased to 29.1% from 30.8% due to a year-end closing process which caused abnormally high gross margins in Q4/09. This was the result of the realization of actual balance sheet items (ex. inventory obsolescence, allowance for doubtful accounts) being less than what was originally estimated which had a favorable impact on Q4/09 gross margins. SG&A expenses remained relatively flat at $4.7 million.

We projected Q4/10 sales of $31.5 million and net income of $2.5 million or $0.36 per diluted share.

For the year ended December 31, 2010, sales increased 22% to $120.8 million. Excluding revenue contribution of businesses acquired in 2009, sales increased 10% to $109.1 million. Net income was $9.2 million or $1.37 per diluted share in 2010 versus net income of $5.9 million or $0.94 per diluted share in 2009. Included in the results for 2009 was a pre-tax gain of approximately $0.8 million or $0.14 per share related to acquisitions.

The increase in sales in 2010 was driven primarily by the 2009 acquisitions of Foamade, ENM, and AMI (all within the component products segment). The increase in sales excluding these acquisitions was largely due to increased demand for interior trim parts from the automotive industry of approximately $6.6 million (component products segment), as well as an increase in sales in the packaging segment of approximately $2.3 million due to the effect of an improved economic environment on demand for customers' parts.

Gross margins in 2010 increased to 28.7% from 26.9% primarily due to greater manufacturing overhead coverage.

SG&A expenses in 2010 increased to $20.2 million from $18.5 in 2009 primarily due to $1.2 million of additional costs associated with the 2009 acquisitions (Foamade in March, E.N. Murray in July, and Advanced Materials in August) and increased compensation of approximately $0.5 million. As a percentage of sales, SG&A expenses decreased primarily from the company's ability to leverage the relatively fixed components of SG&A costs against higher sales. Operating margins increased to 11.9% from 8.2%.

Liquidity

The company has a strong balance sheet. Long-term debt is $6.8 million (for a debt/equity ratio of 0.1 versus 0.9 for the industry) and cash exceeds all indebtedness and liabilities.

Cash of $12.6 million from operations consisted mainly of cash earnings of $13.9 million offset by increases in working capital of $1.3 million. Capital expenditures were $3.3 million and net cash provided by financing activities was $0.1 million. The net result was a $9.4 million net increase in cash for a balance of $24.4 million as of December 31, 2010.

The company has significant bank credit facilities available which should allow it to take advantage of strategic acquisition opportunities. UFPT's available bank credit facilities are as follows: a $17 million revolving line of credit, a $2.1 million term loan with 7 year straight-line amortization, a $1.8 million term loan with 20 year straight-line amortization, and a $4.0 million term loan with 20 year straight-line amortization.

As of December 31, 2010, the company had approximately $15.7 million available on its revolving line of credit based upon available collateral. The credit facility bears interest at LIBOR plus 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The company's $17 million revolving credit facility is due November 30, 2013; the term loans are all due on January 29, 2016. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant which the company was in compliance with at December 31, 2010. The interest rate on these facilities was 1.29% and there were no borrowings outstanding on the line of credit.

Business

UFP Technologies designs and manufactures engineered packaging solutions 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. UFP sells mainly to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the United States.

Sales of the company's components products were responsible for 67% of total sales in 2010 while packaging products comprised 33%. Since 2005, sales of component products have averaged annual growth of approximately 11% while packaging products have averaged annual growth of approximately 4% during that time frame. We have tempered components products growth estimates (to 9.5% in 2011 and 8% in 2012) due to the phasing out of a program within this segment over the next few years.

During this period, component product sales increased 32% while packaging product sales increased 6% from the comparable period in 2009. The increase in sales was primarily due to acquisitions and increased sales to the automotive industry. UFPT's components product sales generate higher operating margins as compared to packaging product sales (13.8% for components versus 8.1% for packaging in 2010).

The company's high-performance cushion packaging products are made primarily from polyethylene and polyurethane foams, and a wide range of sheet plastics. These products are custom designed and fabricated or molded to provide protection for fragile and valuable items, and are sold primarily to original equipment and component manufacturers. Molded fiber products are made primarily from 100% recycled paper principally derived from waste newspaper. These products are custom designed, engineered and molded into shapes for packaging high volume consumer goods, including computer components, medical devices, other light electronics, scented candles, and health and beauty products.

The cushion packaging market is characterized by three primary sectors: (1) custom fabricated or molded products for low volume, high fragility products; (2) molded or die-cut products for high volume, industrial and consumer goods; and (3) loose fill and commodity packaging materials for products that do not require custom-designed packaging. The company serves the low volume, high fragility market and the high volume industrial and consumer market with a range of materials and manufacturing capabilities, but does not materially serve the commodity packaging market.

In addition to packaging products, UFPT fabricates and molds component products made from cross-linked polyethylene foam and other materials. The company also laminates fabrics and other materials to cross-linked polyethylene foams, polyurethane foams and other substrates. 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.

Cross-linked foams have many advantages over traditional foams, including the ability to be thermoformed (molded), availability in vibrant colors, a fine cell structure providing improved esthetics and lower abrasiveness, and enhanced resistance to chemicals and ultraviolet light. Certain grades of cross-linked foams can be radiation-sterilized and have been approved by the U.S. Food and Drug Administration for open wound skin contact.

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 31% of total revenues in 2010. A single automotive program accounted for approximately 9% of total sales in 2010. The program is scheduled to phase out beginning in Q3/11 but it is uncertain whether the phase-out will occur as scheduled. Assuming the phase-out occurs as scheduled; the company expects sales from this program to decline over the next three years.

Environmental Considerations
The company is aware of public support for environmentally responsible packaging and other products. Future government action may impose restrictions affecting the industry in which the company operates. There can be no assurance that any such action will not adversely impact UFP Technologies' products and business.

Cost of energy and raw materials
UFP Technologies uses electricity and natural gas at its manufacturing facilities to operate its equipment. Energy costs have been high in 2010 impacting gross margins. Prolonged armed conflict in the Middle East or natural disasters could result in a real or perceived shortage of petroleum and/or natural gas, raising the cost of UFPT's raw materials, of which many are petroleum-based.

Economic conditions
Poor economic conditions could negatively impact sales of the company's packaging customers which in turn would have an adverse affect on UFPT's sales.

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.

Liquidity
With only 6.4 million shares outstanding and 4.6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 150,000 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 known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Balance Sheet for the Periods Ended
(in thousands $)

	2008A	2009A	2010A	2011E	2012E
Assets					
Current assets:					
Cash and cash equivalents	6,729	14,999	24,434	34,223	44,577
Receivables	12,755	14,218	14,634	15,753	16,807
Inventories	8,153	7,647	8,044	9,176	9,731
Prepaid expenses	516	476	1,035	1,100	1,200
Refundable income taxes	-	-	1,414	-	-
Deferred income taxes	1,489	1,411	1,209	1,360	1,400
Total current assets	29,642	38,751	50,770	61,612	73,715
Net property, plant and equipment	11,754	12,218	12,575	12,250	12,150
Deferred income taxes	-	-	-	-	-
Goodwill	6,481	6,481	6,481	6,481	6,481
Other assets	846	2,002	1,983	2,000	2,000
Total assets	**48,723**	**59,452**	**71,809**	**82,343**	**94,346**
Liabilities & stockholders' equity					
Current liabilities:					
Current portion of long-term debt	717	623	654	650	650
Current portion of capital lease obligations	703	-	-	-	-
Accounts payable	3,304	4,274	5,169	5,506	5,839
Accrued taxes and other expenses	6,230	6,153	6,679	7,190	7,671
Total current liabilities	10,954	11,050	12,502	13,345	14,160
Long-term debt	3,942	7,502	6,847	6,000	5,200
Capital lease obligations	910	-	-	-	-
Minority interest	523	-	-	-	-
Deferred income taxes	113	777	881	990	1,090
Other liabilities	914	1,118	1,353	1,430	1,500
Total liabilities	**17,356**	**20,447**	**21,583**	**21,765**	**21,950**
Total stockholders' equity	**31,367**	**39,005**	**50,226**	**60,578**	**72,397**
Total liabilities & stockholders' equity	**48,723**	**59,452**	**71,809**	**82,343**	**94,346**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements for the Years Ended
(in thousands $)

	2008A	2009A	2010A	2011E	2012E
Net sales	110,032	99,231	120,766	130,000	138,700
Cost of sales	81,469	72,512	86,150	91,762	97,314
Gross profit	28,563	26,719	34,616	38,238	41,386
Restructuring charge	1,315	-	-	-	-
SG&A	18,823	18,539	20,236	21,450	22,450
Operating income	8,425	8,180	14,380	16,788	18,936
Interest exp, other inc and exp	(314)	618	46	(100)	(80)
Income before taxes	8,111	8,798	14,426	16,688	18,856
Income tax	2,995	2,817	5,019	6,175	6,977
Income attrib. to noncontrol. interests	-	(52)	(160)	(160)	(160)
Net Income / (Loss)	5,116	5,929	9,247	10,354	11,719
EPS	0.82	0.94	1.37	1.48	1.63
Diluted Shares Outstanding	6,263	6,294	6,757	6,975	7,175
Margin Analysis					
Gross margin	26.0%	26.9%	28.7%	29.4%	29.8%
SG&A	17.1%	18.7%	16.8%	16.5%	16.2%
Operating margin	7.7%	8.2%	11.9%	12.9%	13.7%
Tax rate	36.9%	32.0%	34.8%	37.0%	37.0%
Year / Year Growth					
Total Revenues	17.6%	-9.8%	21.7%	7.6%	6.7%
Net Income	23.0%	15.9%	56.0%	12.0%	13.2%
EPS	15.1%	15.3%	45.3%	8.5%	10.0%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2010, 2011, and 2012
(in thousands $)

	3/10A	6/10A	9/10A	12/10A	2010A	3/11E	6/11E	9/11E	12/11E	2011E	3/12E	6/12E	9/12E	12/12E	2012E
Net sales	28,700	29,957	30,468	31,640	120,766	30,550	33,150	31,850	34,450	130,000	32,600	35,350	34,000	36,750	138,700
Cost of sales	21,243	20,911	21,562	22,434	86,150	21,691	23,338	22,550	24,184	91,762	23,016	24,745	23,902	25,652	97,314
Gross profit	7,457	9,046	8,906	9,206	34,616	8,860	9,812	9,300	10,266	38,238	9,584	10,605	10,098	11,099	41,386
Restructuring charge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SG&A	5,012	5,387	5,103	4,734	20,236	5,325	5,350	5,375	5,400	21,450	5,575	5,600	5,625	5,650	22,450
Operating income	2,445	3,659	3,803	4,472	14,380	3,535	4,462	3,925	4,866	16,788	4,009	5,005	4,473	5,449	18,936
Interest exp, other inc and exp	(35)	(22)	(35)	139	46	(25)	(25)	(25)	(25)	(100)	(20)	(20)	(20)	(20)	(80)
Income before taxes	2,410	3,637	3,768	4,611	14,426	3,510	4,437	3,900	4,841	16,688	3,989	4,985	4,453	5,429	18,856
Income tax	888	1,339	1,389	1,403	5,019	1,299	1,642	1,443	1,791	6,175	1,476	1,844	1,648	2,009	6,977
Income attrib. to noncontrol. interests	(11)	(16)	(14)	(119)	(160)	(40)	(40)	(40)	(40)	(160)	(40)	(40)	(40)	(40)	(160)
Net Income / (Loss)	1,511	2,282	2,365	3,089	9,247	2,171	2,756	2,417	3,010	10,354	2,473	3,101	2,765	3,380	11,719
EPS	0.23	0.34	0.35	0.45	1.37	0.31	0.40	0.35	0.43	1.48	0.35	0.43	0.38	0.47	1.63
Diluted Shares Outstanding	6,642	6,725	6,785	6,875	6,757	6,900	6,950	7,000	7,050	6,975	7,100	7,150	7,200	7,250	7,175
Margin Analysis															
Gross margin	26.0%	30.2%	29.2%	29.1%	28.7%	29.0%	29.6%	29.2%	29.8%	29.4%	29.4%	30.0%	29.7%	30.2%	29.8%
SG&A	17.5%	18.0%	16.7%	15.0%	16.8%	17.4%	16.1%	16.9%	15.7%	16.5%	17.1%	15.8%	16.5%	15.4%	16.2%
Operating margin	8.5%	12.2%	12.5%	14.1%	11.9%	11.6%	13.5%	12.3%	14.1%	12.9%	12.3%	14.2%	13.2%	14.8%	13.7%
Tax rate	36.8%	36.8%	36.9%	30.4%	34.8%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Year / Year Growth															
Total Revenues	32.8%	42.9%	10.3%	8.9%	21.7%	6.4%	10.7%	4.5%	8.9%	7.6%	6.7%	6.6%	6.8%	6.7%	6.7%
Net Income	338.0%	303.2%	12.0%	6.3%	56.0%	43.7%	20.8%	2.2%	-2.6%	12.0%	13.9%	12.5%	14.4%	12.3%	13.2%
EPS	305.7%	271.2%	4.0%	0.5%	45.3%	38.3%	16.8%	-0.9%	-5.0%	8.5%	10.7%	9.4%	11.2%	9.2%	10.0%

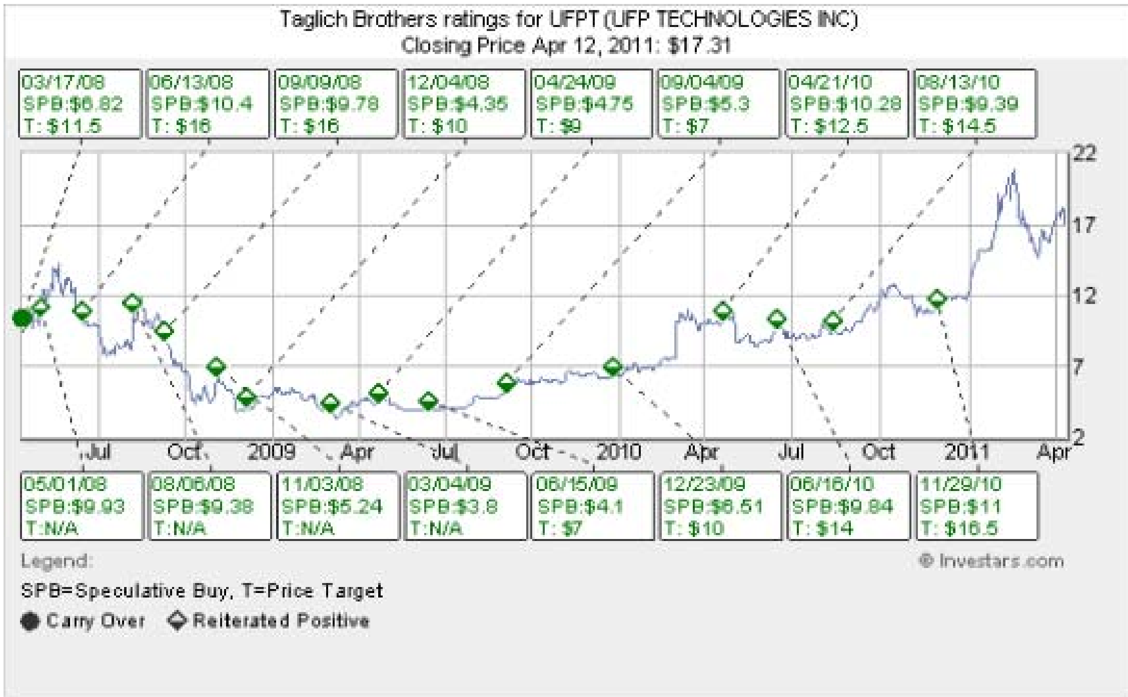
Source: Company filings and Taglich Brothers' estimates

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

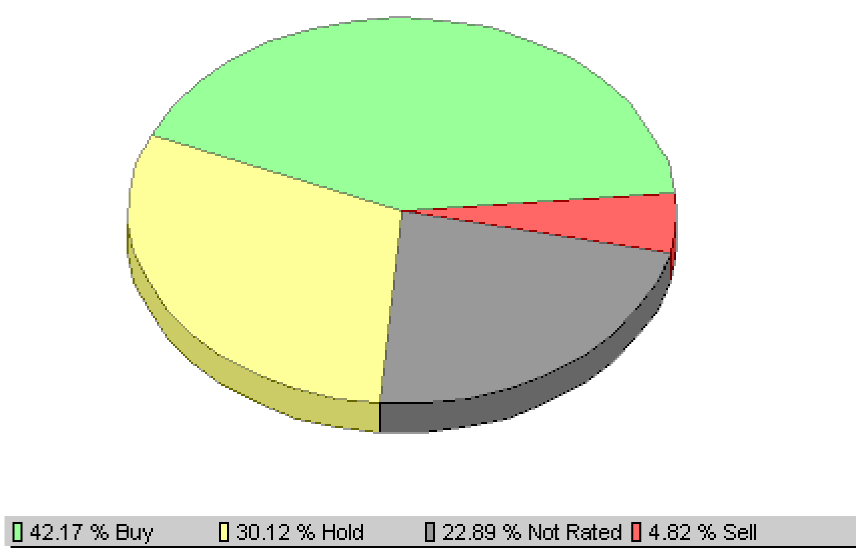
	2008A	2009A	2010A	2011E	2012E
Cash Flows from Operating Activities					
Net income	5,116	5,982	9,407	10,354	11,719
Depreciation & amortization	2,977	2,895	3,152	3,250	3,350
Restructuring leasehold improvement write-off	170	-	-	-	-
Equity in net income of unconsolidated affiliate	(7)	-	-	-	-
Minority interest	44	-	-	-	-
Gain on acquisition	-	(840)	-	-	-
(Gain) loss on disposal of property, plant and equipment	(57)	(11)	(12)	-	-
Share-based compensation	1,306	901	964	1,000	1,000
Stock issued in lieu of compensation	344	184	79	50	50
Deferred income taxes	16	227	306	260	140
Changes in assets and liabilities					
Receivables	777	(342)	(415)	(1,119)	(1,054)
Inventories	(435)	1,863	(397)	(1,132)	(555)
Prepaid expenses	350	73	(559)	(65)	(100)
Refundable income taxes	-	-	(1,414)	1,414	
Accounts payable	(2,777)	393	895	337	333
Accrued expenses and other	(937)	(331)	527	511	481
Retirement and other liabilites	(119)	204	234	77	70
Other assets	(83)	(509)	(205)	(17)	-
Net Cash Provided by Operations	**6,685**	**10,689**	**12,562**	**14,919**	**15,434**
Cash Flows from Investing Activities					
Additions to property, plant and equipment	(2,763)	(1,857)	(3,286)	(2,200)	(2,200)
Cash surrender value of officers' life insurane	(15)	-	-	-	-
Payments from affiliated company	7	-	-	-	-
Proceeds from sale of property, plant and equipment	101	13	12	-	-
Acquisitions	(5,181)	(2,435)	-	(2,000)	(2,000)
Net Cash Used in Investing	**(7,851)**	**(4,279)**	**(3,274)**	**(4,200)**	**(4,200)**
Cash Flows from Financing Activities					
Borrowings (payments) of notes payable	-	-	-	-	-
Proceeds from long-term borrowings	-	4,000	-	-	-
Distribution to United Development Company partners	(105)	(105)	(105)	(105)	(105)
Tax benefit from exercise of non-qualified stock options	211	23	854	-	-
Net proceeds from sale of common stock	20	-	-	-	-
Proceeds from exercise of stock options	333	130	507	500	500
Payment of statutory witholdings for stock options exercised	-	-	(485)	(475)	(475)
Principal repayments of long-term debt	(714)	(577)	(624)	(850)	(800)
Principle repayments of capital lease obligations	(704)	(1,612)	-	-	-
Proceeds from refinancing capital leases	-	-	-	-	-
Cash settlement of restricted stock units	(206)	-	-	-	-
Net Cash Provided by (Used in) Financing	**(1,165)**	**1,859**	**147**	**(930)**	**(880)**
Net Change in Cash	**(2,331)**	**8,269**	**9,435**	**9,789**	**10,354**
Cash - Beginning of Period	**9,060**	**6,729**	**14,999**	**24,434**	**34,223**
Cash - End of Period	**6,729**	**14,999**	**24,434**	**34,223**	**44,577**
Cash Flow from Operations	6,685	10,689	12,562	14,919	15,434
Capital Expenditures	(2,763)	(1,857)	(3,286)	(2,200)	(2,200)
Free Cash Flow	3,922	8,832	9,276	12,719	13,234

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		
Hold	None	
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)
Smurfit-Stone Container (NYSE: SSCC)
Sealed Air Corp. (NYSE: SEE)

Meaning of Ratings

Buy

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical "buy" recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

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.