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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 21, 2010

UFPT $10.28 — (NASDAQ CM)

	2008A	2009A	2010E	2011E
Revenues (millions)	$110.0	$99.2	$117.0	$123.0
Earnings per share (diluted)	$0.82	$0.94	$1.04	$1.14

52-Week range	$11.29 – $4.03	Fiscal year ends:	December
Shares outstanding as of 3/10/10	6.1 million	Revenue per share (TTM)	$15.77
Approximate float	4.6 million	Price/Sales (TTM)	0.7X
Market capitalization	$63 million	Price/Sales (2011)E	0.6X
Tangible book value/share	$5.33	Price/Earnings (TTM)	10.9X
Price/tangible book	1.9X	Price/Earnings (2011)E	9.0X

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 reiterating our Speculative Buy rating on UFP Technologies (NASDAQ CM: UFPT) and increasing our price target to $12.50 per share (previously $10.00) based on a multiple of 11X earnings applied to our 2011 estimates.

Recent acquisitions and economic growth should drive a moderate improvement in UFPT's sales. Increased capacity utilization should help to expand margins. The company exhibits a strong balance sheet with $2.52 cash per share, a low debt/equity ratio (0.2 versus 1.1 for the industry), and a tangible book value of $5.33 per share.

For 2010, we project revenue of $117.0 million and net income of $6.7 million or $1.04 per diluted share. We previously estimated 2010 revenue of $116.0 million and net income of $5.6 million or $0.87 per diluted share.

Keeping in line with the long-term industry growth rate, we project 2011 revenue of $123.0 million and net income of $7.7 million or $1.14 per diluted share.

On March 3, 2010, UFPT reported full year sales decreased 10% to $99.2 million while EPS increased to $0.94 from $0.82. Q4/09 sales increased 11% to $29.0 million while EPS increased to $0.45 from $0.19. We estimated full year sales of $98.4 million and EPS of $0.71 and fourth quarter sales of $28.2 million and EPS of $0.22.

Please view our disclosures starting on page 12.

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and raising our price target to $12.50 per share from $10.00. Improving economic conditions should result in a moderate improvement in UFPT's sales over current levels.

Applying the company's current earnings multiple of 11X to our 2011 earnings per diluted share estimate of $1.14, we arrive at a **price target of approximately $12.50 per share**.

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.

Sales of the company's components products were responsible for 61% of 2009's total sales while packaging products comprised 39%. Components product sales grew 13% since 2007 while packaging sales fell 4% over the same time frame. The increase in components product sales was primarily due to acquisitions while the decrease in packaging product sales was primarily due to recessionary pressures. UFPT's components product sales generate higher operating margins as compared to packaging product sales (9.5% packaging versus 6.2% components in 2009).

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, UFP 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. UFP'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.

Industry

In February 2009, Research and Markets (a source of international market research and market data) in their "Containers & Packaging: Global Industry Guide," said that the global containers and packaging market grew by approximately 3% in 2008 to reach a value of $429.1 billion. Paper packaging accounts for 40.5% of the global containers and packaging markets volume with the Americas generating 35.6% of the global containers and packaging markets value.

In January 2010, IBISWorld estimated that in 2009, the urethane and other foam product (except polystyrene) manufacturing industry generated US sales of $11.0 billion for a decrease of 6.4% from 2008. The collapse of the domestic automotive industry throughout 2008 and 2009 caused demand for new cars to plummet, which in turn reduced demand for foam used in automotive seats and other interior products. Even packaging manufacturers are believed to have experienced a decline for their products in 2009.

IBISWorld believes that the industry will begin to turn the corner in 2010, as housing starts begin to increase and consumer confidence begins to pick up. 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. IBISWorld forecasts industry revenue to increase by 8.8% in 2010 and at an average annualized rate of 4.7% over the five years to 2014.

Competition

The packaging industry is highly competitive. Competition is based primarily on packaging performance characteristics, service and price. Since competition is also based upon innovations in packaging technology, research and development programs are essential in maintaining technological leadership. We believe UFP Technologies invests approximately 40% more than the industry average on research and development as a percentage of net sales per year. The industry on average spends approximately 1% of sales on R&D while UFPT averaged approximately 1.4% of sales on R&D over the past three years.

The company's primary competition for its packaging products has been from smaller independent regional manufacturing companies. These companies generally market their products in specific geographic areas from neighboring facilities. In addition, the company's foam and fiber packaging products compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane.

The component products industry is also highly competitive. The company's component products face competition primarily from smaller companies that typically concentrate on production of component products for specific industries. UFP Technologies' component products also compete with products made from a wide range of other materials, including rubber, leather and other foams.

We believe the company's ability to custom design its own proprietary manufacturing equipment in conjunction with its machinery suppliers allows the company to effectively differentiate its products from the competition. 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 larger competitors include Sealed Air Corp. (NYSE: SEE) and privately held FXI-Foamex International, and Tegrant Corporation. The latest annual revenues reported by Sealed Air are $4.2 billion. We could not find any public data related to revenues for FXI-Foamex International and Tegrant.

2009 Financial Results

For the year ended December 31, 2009 versus the same period in 2008:

- Net sales decreased 10% to $99.2 million from $110.0 million.
- Gross margins increased to 26.9% from 26.0%.
- SG&A expenses decreased to $18.5 million from $18.8 million.
- Net income was $5.9 million or $0.94 per diluted share versus net income of $5.1 million or $0.82 per diluted share.

Packaging sales decreased to $38.3 million from $49.2 million and component products sales increased to $61.0 million from $60.8 million in 2008. The decrease in packaging sales was due largely to a decline in sales to a key electronics customer and overall reduced demand for packaging due to a weak economy. The increase in component product sales was primarily due to the accretive effect of the acquisitions (all within the component products segment). Excluding acquisitions since the beginning of the year, sales declines for the year ended December 31, 2009, would have been 20%.

The increase in gross margin was primarily due to increased manufacturing efficiencies and cost-cutting initiatives, as well as a favorable product mix (lower auto sales).

The decline in SG&A was primarily due to reduced administrative variable compensation of approximately $900,000 (both business segments) and reduced expenses of approximately $550,000 associated with the consolidation of the company's two Michigan facilities, partially offset by expenses associated with 2009 acquisitions (Foamade in March, E.N. Murray in July, and Advanced Materials in August) of approximately $1.3 million (component products segment).

The company recorded acquisition-related gains of approximately $840,000 for 2009 as the consideration paid for the acquisitions of Foamade, EN Murray, and Advanced Materials, was less than the fair market value of the net assets acquired. These gains are included in non-operating income/ (expense) for 2009. Excluding these gains, non-operating expense would have been $222,000 in 2009 versus $314,000 in 2008.

For the fourth quarter ended December 31, 2009 versus the same period in 2008:

- Net sales increased 11% to $29.0 million from $26.1 million.
- Gross margins increased to 30.8% from 25.5%.
- SG&A expenses increased to $4.7 million from $4.0 million.
- Net income was $2.9 million or $0.45 per diluted share versus net income of $1.1 million or $0.19 per diluted share. Included in net income for Q4/08 was a $0.9 million restructuring charge associated with the consolidation of the company's in Michigan. Excluding the restructuring charge (and assuming the same tax rate), we believe Q4/08 net income would have been $1.8 million or $0.29 per diluted share.

We estimated fourth quarter net sales of $28.2 million and net income of $1.4 million or $0.22 per diluted share.

The increase in gross margins was due to the year-end closing process which resulted in less cost of sales than originally anticipated. This was due to 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 gross margins. Thus, we believe that Q4/09 margins may not be indicative of gross margins in the future.

The increase in SG&A expenses was the result of the acquisitions in 2009. However, SG&A expenses were significantly reduced in Q4/09 when compared to Q3/09 which we believe is due to the successful integration of the acquisitions.

The abnormally high EPS for the quarter was primarily due to the gross margin anomaly. A more typical gross margin (27%) would have resulted in net income of $2.2 million or $0.33 per diluted share.

Liquidity

The company exhibits a strong balance sheet. Long-term debt is $7.5 million (for a debt/equity ratio of 0.2 versus 1.1 for the industry) and tangible book value is $5.33 per share.

Cash of $10.7 million from operations consisted mainly of cash earnings of $9.3 million and working capital reductions of $1.9 million mainly in inventories.

Cash used in investing activities during 2009 was approximately $4.3 million with $1.9 million in capital expenditures and $2.4 million for the acquisition of selected assets of Foamade, EN Murray and Advanced Materials.

The company generated $1.9 million from financing activities in 2009 primarily from the issuance of $4.0 million of long-term debt offset by $1.6 million in capital lease obligations and $0.6 million principal repayments of long-term debt. Cash increased by $8.3 million to $15.0 million as of December 31, 2009.

The company has the following bank credit facilities available:

- 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
- a $4.0 million term loan with 20 year straight-line amortization

As of December 31, 2009, the company had approximately $14.4 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.

Projections

Pro forma sales and net income for 2009 assuming the ENM acquisition occurred on January 1, 2009, were $105.2 million and $6.1 million or $0.96 per diluted share respectively. The company has stated that is was impractical to determine the amount of sales and earnings that would have been recorded had the Foamade and AMI acquisitions occurred on January 1, 2009 as only selected assets were acquired and not the entire operations.

By annualizing AMI's results since it was acquired and determining Foamade's contribution by the size of the acquisition, we believe 2009 pro forma sales inclusive of all acquisitions would have been approximately $111 million or roughly $12 million higher than actual results. Our pro forma estimates have AMI's contribution at $3.5 million annually and Foamade's contribution at $2.0 million annually.

The company has successfully integrated the acquisitions of 2009 and we believe there is room for growth with an improving economy. The Conference Board's latest Leading Economic Index suggests moderately improving economic conditions in the near term.

The consolidation of UFPT's Michigan facilities late in 2008 managed to reduce SG&A expenses by $550,000 in 2009 and we believe the successful integration of 2009's acquisitions further reduced SG&A expenses. This can be evidenced by SG&A expenses falling from 21.1% of sales in the second quarter of 2009 (first full quarter after Foamade acquisition) to 18.4% in the third quarter. SG&A expenses continued to fall to 16.1% of sales in the fourth quarter of 2009 (first full quarter after E.N. Murray and Advanced Materials acquisitions).

In October 2009, the company's largest customer, Recticel Interiors North America, filed for Chapter 11 bankruptcy protection. Sales to Recticel in 2009 constituted 8% of UFPT's total sales. Recticel blamed their bankruptcy filing on unfavorable contracts with their two largest customers, Johnson Controls, Inc. (NYSE: JCI) and Inteva Products, LLC. During the course of the bankruptcy proceeding, Recticel Interiors reached settlements with both Johnson Controls and Inteva Products. UFPT expects that the bankruptcy filing will have no impact on future orders from Recticel and upon contacting Recticel; we confirmed that the bankruptcy filing would not impact Recticel's business with UFPT.

Factoring in the economic forecast, industry forecasts, recent results, and recent acquisitions, we estimate 2010 revenue of $117.0 million and net income of $6.7 million or $1.04 per diluted share. We previously estimated revenue of $116.0 million and net income of $5.6 million or $0.87 per diluted share. The increase in our estimates is based on moderate growth over 2009's pro forma numbers.

UFPT's backlog of $25.6 million in February 2010 was 11% higher than its backlog of $23.0 million in February 2009. However, backlog on any particular date should not be relied upon as indicative of the company's revenues for any period.

The added sales should expand gross margins to 27.2% from 26.9% due to increased capacity utilization. SG&A expenses should also increase due to the increased level of sales. However, as a percent of sales, SG&A expenses should decrease to 17.8% as the higher level of sales should more than offset the relatively fixed-cost components of SG&A. We believe the majority (over 90%) of the company's SG&A expenses are fixed with a small percentage being variable due to fluctuating sales commissions. We are forecasting a tax rate of 37%, in line with the average rate over the past few years.

In 2010, we project $9.6 million cash from operations driven by cash earnings of $11.5 million and increases in working capital of $2.0 million. $3.2 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $1.0 million in acquisitions. Financing activities should consist primarily of $1.0 million principal repayments of long-term debt. We project an increase in cash of $5.4 million for a year end cash balance of $20.4 million.

Keeping in line with the long-term industry growth rate of approximately 5%, we estimate 2011 revenue of $123.0 million and net income of $7.7 million or $1.14 per share. The increase in sales should result in gross margins of 27.4% due to increased manufacturing utilization. SG&A expenses should also increase with the higher level of sales, however, SG&A expenses should decrease as a percentage of sales to 17.2% as the higher level of sales should more than offset the relatively fixed-cost components of SG&A. We are maintaining a tax rate of 37%.

In 2011, we project $11.8 million cash from operations driven by cash earnings of $12.5 million and increases in working capital of $0.7 million. $3.2 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $1.0 million in acquisitions. Financing activities consist primarily of $1.0 million principal repayments of long-term debt. We project an increase in cash of $7.6 million for a year end cash balance of $28.0 million.

Risks

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

<u>Dependence on a small number of customers</u>
The company's top ten customers represented approximately 32% of total revenues in 2009. A single automotive program accounted for approximately 13% of UFPT's Component Products segment sales and 8% of total sales in 2009. The program is scheduled to phase out beginning in 2011 but could terminate sooner. The next generation of automobiles in this program may not require the same design of parts. Even if it does, the company may not be selected as the supplier. The company expects sales from this program to decline over the next two 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. 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.

Other risks include:
i. economic conditions that affect sales of the products of the company's packaging customers
ii. actions taken by the company's competitors and the ability of the company to respond to such actions
iii. the ability of the company to obtain new customers
iv. the ability of the company to execute and integrate favorable acquisitions

Liquidity
With only 6.1 million shares outstanding and 4.6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 80,000 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)

	2007A	2008A	2009A	2010E	2011E
Assets					
Current assets:					
Cash and cash equivalents	$ 9,060	$ 6,729	$ 14,999	$ 20,385	$ 28,021
Receivables	11,796	12,755	14,218	16,764	17,624
Inventories	5,877	8,153	7,647	8,983	9,417
Prepaid expenses	821	516	476	500	500
Deferred income taxes	1,021	1,489	1,411	1,700	1,900
Total current assets	28,575	29,642	38,751	48,331	57,461
Net property, plant and equipment	9,492	11,754	12,218	11,000	9,800
Deferred income taxes	189	-	-	-	-
Goodwill	6,481	6,481	6,481	6,481	6,481
Other assets	816	846	2,002	2,000	2,000
Total Assets	**$ 45,553**	**$ 48,723**	**$ 59,452**	**$ 67,812**	**$ 75,742**
Liabilities & stockholders' equity					
Current liabilities:					
Current portion of long-term debt	$ 714	$ 717	$ 623	$ 600	$ 600
Current portion of capital lease obligations	705	703	-	-	-
Accounts payable	5,694	3,304	4,274	5,020	5,263
Accrued taxes and other expenses	6,510	6,230	6,153	7,255	7,627
Total current liabilities	13,623	10,954	11,050	12,875	13,490
Long-term debt	4,658	3,942	7,502	6,500	5,500
Capital lease obligations	1,613	910	-	-	-
Minority interest	584	523	-	-	-
Deferred income taxes	-	113	777	800	800
Other liabilities	832	914	1,118	1,200	1,200
Total liabilities	**21,310**	**17,356**	**20,447**	**21,375**	**20,990**
Total stockholders' equity	**24,243**	**31,367**	**39,005**	**46,437**	**54,752**
Total liabilities & stockholders' equity	**$ 45,553**	**$ 48,723**	**$ 59,452**	**$ 67,812**	**$ 75,742**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements for the Years Ended
(in thousands)

	2007A	2008A	2009A	2010E	2011E
Net sales	$ 93,595	110,032	99,231	117,000	123,000
Cost of sales	70,785	81,469	72,512	85,176	89,298
Gross profit	22,810	28,563	26,719	31,824	33,702
Restructuring charge	-	1,315	-	-	-
SG&A	15,563	18,823	18,539	20,800	21,200
Operating income	7,247	8,425	8,180	11,024	12,502
Interest exp, other inc and exp	(504)	(314)	618	(240)	(200)
Income before taxes	6,743	8,111	8,798	10,784	12,302
Income tax	2,584	2,995	2,817	3,990	4,552
Tax rate	*38.32%*	*36.93%*	*32.02%*	*37.00%*	*37.00%*
Income attrib. to noncontrol. interests		-	(52)	(60)	(60)
Net Income / (Loss)	$ 4,159	5,116	5,929	6,734	7,690
Basic EPS	$ 0.78	0.92	1.02	1.11	1.21
Diluted EPS	$ 0.71	0.82	0.94	1.04	1.14
Basic Shares Outstanding	5,307	5,550	5,829	6,075	6,355
Diluted Shares Outstanding	5,861	6,263	6,294	6,475	6,755
Margin Analysis					
Gross margin	24.4%	26.0%	26.9%	27.2%	27.4%
SG&A	16.6%	17.1%	18.7%	17.8%	17.2%
Operating margin	7.7%	7.7%	8.2%	9.4%	10.2%
Year / Year Growth					
Total Revenues	-0.2%	17.6%	-9.8%	17.9%	5.1%
Net Income	65.4%	23.0%	15.9%	13.6%	14.2%
EPS	57.2%	15.1%	15.3%	10.4%	9.5%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2009, 2010, and 2011
(in thousands $)

	3/09A	6/09A	9/09A	12/09A	2009A	3/10E	6/10E	9/10E	12/10E	2010E	3/11E	6/11E	9/11E	12/11E	2011E
Net sales	21,608	20,959	27,620	29,044	99,231	27,500	29,750	28,750	31,000	117,000	28,900	31,400	30,100	32,600	123,000
Cost of sales	16,665	15,588	20,166	20,093	72,512	20,020	21,658	20,930	22,568	85,176	20,981	22,796	21,853	23,668	89,298
Gross profit	4,943	5,371	7,454	8,951	26,719	7,480	8,092	7,820	8,432	31,824	7,919	8,604	8,247	8,932	33,702
Restructuring charge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SG&A	4,390	4,416	5,071	4,662	18,539	5,200	5,200	5,200	5,200	20,800	5,300	5,300	5,300	5,300	21,200
Operating income	553	955	2,383	4,289	8,180	2,280	2,892	2,620	3,232	11,024	2,619	3,304	2,947	3,632	12,502
Interest exp, other inc and exp	2	(54)	716	(46)	618	(60)	(60)	(60)	(60)	(240)	(50)	(50)	(50)	(50)	(200)
Income before taxes	555	901	3,099	4,243	8,798	2,220	2,832	2,560	3,172	10,784	2,569	3,254	2,897	3,582	12,302
Income tax	194	319	977	1,327	2,817	821	1,048	947	1,174	3,990	950	1,204	1,072	1,325	4,552
Tax rate	*34.95%*	*35.41%*	*31.53%*	*31.28%*	*32.02%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*
Income attrib. to noncontrol. interests	(16)	(16)	(10)	(10)	(52)	(15)	(15)	(15)	(15)	(60)	(15)	(15)	(15)	(15)	(60)
Net Income / (Loss)	345	566	2,112	2,906	5,929	1,384	1,769	1,598	1,983	6,734	1,603	2,035	1,810	2,242	7,690
Basic EPS	0.06	0.10	0.36	0.49	1.02	0.23	0.29	0.26	0.32	1.11	0.26	0.32	0.28	0.35	1.21
Diluted EPS	0.06	0.09	0.34	0.45	0.94	0.22	0.27	0.25	0.30	1.04	0.24	0.30	0.27	0.33	1.14
Basic Shares Outstanding	5,713	5,767	5,894	5,920	5,829	5,970	6,040	6,110	6,180	6,075	6,250	6,320	6,390	6,460	6,355
Diluted Shares Outstanding	6,153	6,191	6,301	6,497	6,294	6,370	6,440	6,510	6,580	6,475	6,650	6,720	6,790	6,860	6,755
Margin Analysis															
Gross margin	22.9%	25.6%	27.0%	30.8%	26.9%	27.2%	27.2%	27.2%	27.2%	27.2%	27.4%	27.4%	27.4%	27.4%	27.4%
SG&A	20.3%	21.1%	18.4%	16.1%	18.7%	18.9%	17.5%	18.1%	16.8%	17.8%	18.3%	16.9%	17.6%	16.3%	17.2%
Operating margin	2.6%	4.6%	8.6%	14.8%	8.2%	8.3%	9.7%	9.1%	10.4%	9.4%	9.1%	10.5%	9.8%	11.1%	10.2%
Year / Year Growth															
Total Revenues	-22.9%	-26.3%	0.4%	11.4%	-9.8%	27.3%	41.9%	4.1%	6.7%	17.9%	5.1%	5.5%	4.7%	5.2%	5.1%
Net Income	-69.9%	-64.0%	69.4%	153.6%	15.9%	301.0%	212.6%	-24.3%	-31.7%	13.6%	15.9%	15.0%	13.3%	13.0%	14.2%
EPS	-70.3%	-62.9%	69.7%	138.6%	15.3%	287.4%	200.5%	-26.8%	-32.6%	10.4%	11.0%	10.2%	8.6%	8.4%	9.5%

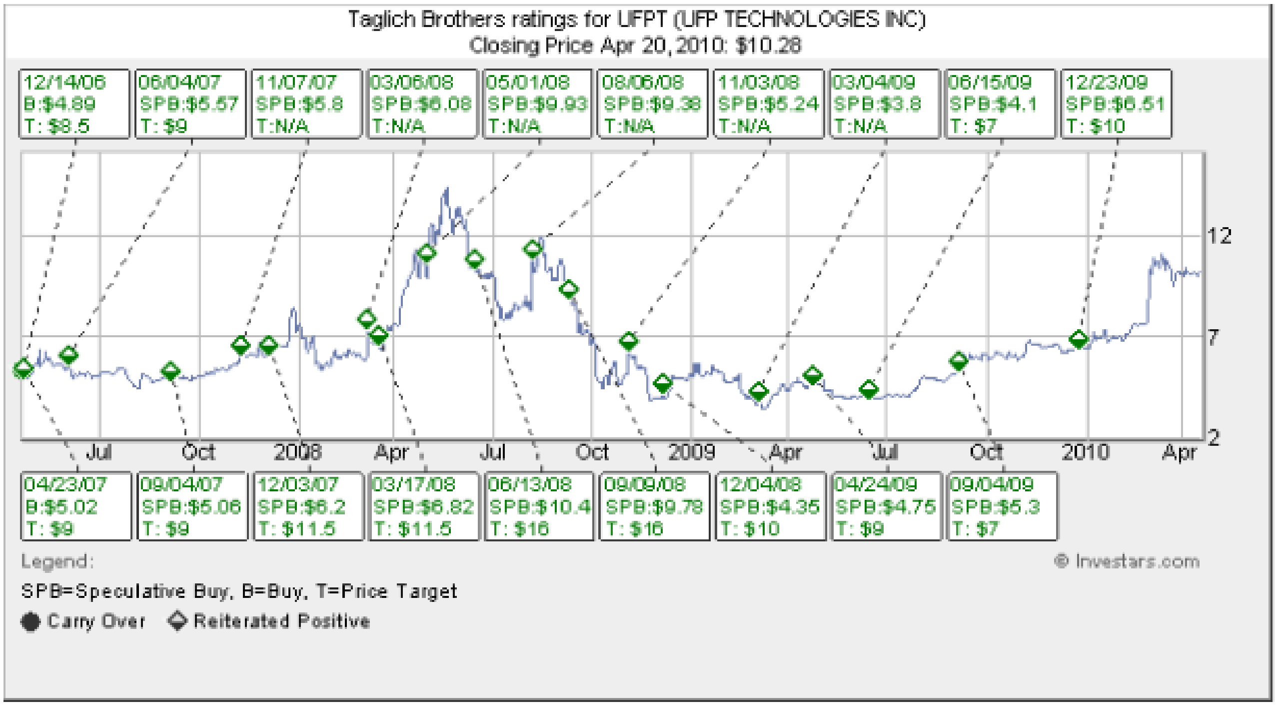
Source: Company filings and Taglich Brothers' estimates

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

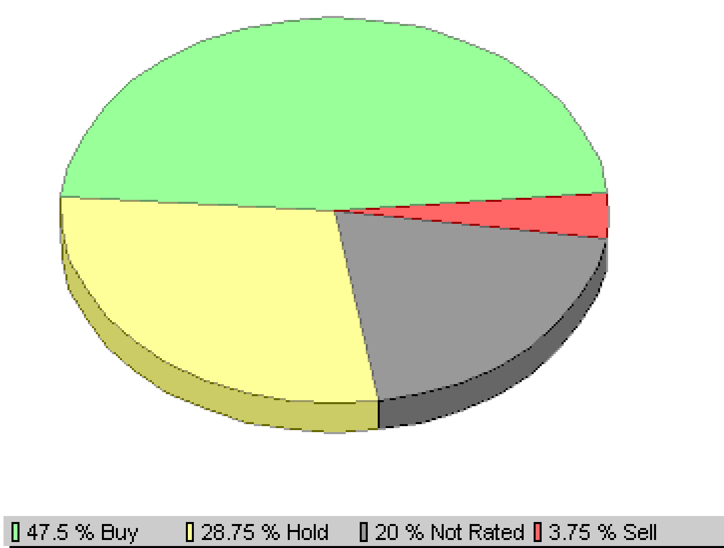
	2007A	2008A	2009A	2010E	2011E
Cash Flows from Operating Activities					
Net income	$ 4,159	$ 5,116	$ 5,982	$ 6,734	$ 7,690
Depreciation & amortization	2,815	2,977	2,895	3,400	3,400
Restructuring leasehold improvement write-off	-	170	-	-	-
Equity in net income of unconsolidated affiliate	(15)	(7)	-	-	-
Minority interest	72	44	-	-	-
Gain on acquisition	-	-	(840)	-	-
(Gain) loss on disposal of property, plant and equipment	(33)	(57)	(11)	-	-
Share-based compensation	692	1,306	901	900	900
Stock issued in lieu of compensation	256	344	184	200	200
Deferred income taxes	1,210	16	227	300	300
Changes in assets and liabilities					
Receivables	(167)	777	(342)	(2,546)	(860)
Inventories	53	(435)	1,863	(1,336)	(435)
Prepaid expenses	(55)	350	73	(24)	-
Accounts payable	1,074	(2,777)	393	746	243
Accrued expenses and other	760	(937)	(331)	1,102	372
Retirement and other liabilites	95	(119)	204	82	-
Other assets	(213)	(83)	(509)	2	-
Net Cash Provided by Operations	**10,703**	**6,685**	**10,689**	**9,561**	**11,811**
Cash Flows from Investing Activities					
Additions to property, plant and equipment	(2,101)	(2,763)	(1,857)	(2,200)	(2,200)
Cash surrender value of officers' life insurane	(15)	(15)	-	-	-
Payments from affiliated company	15	7	-	-	-
Proceeds from sale of property, plant and equipment	33	101	13	-	-
Acquisitions	-	(5,181)	(2,435)	(1,000)	(1,000)
Net Cash Used in Investing	**(2,068)**	**(7,851)**	**(4,279)**	**(3,200)**	**(3,200)**
Cash Flows from Financing Activities					
Borrowings (payments) of notes payable	-	-	-	-	-
Proceeds from long-term borrowings	786	-	4,000	-	-
Distribution to United Development Company partners	(105)	(105)	(105)	(105)	(105)
Tax benefit from exercise of non-qualified stock options	215	211	23	-	-
Net proceeds from sale of common stock	24	20	-	-	-
Proceeds from exercise of stock options	272	333	130	130	130
Principal repayments of long-term debt	(1,095)	(714)	(577)	(1,000)	(1,000)
Principle repayments of capital lease obligations	(689)	(704)	(1,612)	-	-
Proceeds from refinancing capital leases	-	-	-	-	-
Cash settlement of restricted stock units	-	(206)	-	-	-
Net Cash Provided by (Used in) Financing	**(592)**	**(1,165)**	**1,859**	**(975)**	**(975)**
Net Change in Cash	**8,043**	**(2,331)**	**8,269**	**5,386**	**7,636**
Cash - Beginning of Period	**1,017**	**9,060**	**6,729**	**14,999**	**20,385**
Cash - End of Period	**$ 9,060**	**$ 6,729**	**$ 14,999**	**$ 20,385**	**$ 28,021**
Cash Flow from Operations	10,703	6,685	10,689	9,561	11,811
Capital Expenditures	(2,101)	(2,763)	(1,857)	(2,200)	(2,200)
Free Cash Flow	$ 8,602	$ 3,922	$ 8,832	$ 7,361	$ 9,611

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	1	3.57%
Hold	1	33.33%
Sell	0	0.00%
Not Rated	0	0.00%

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

Johnson Controls, Inc. (NYSE: JCI)

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.