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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
June 6, 2013

UFPT $19.15 — (NASDAQ CM)

	2011A	2012A	2013E	2014E
Revenues (millions)	$127.2	$131.0	$143.1	$153.2
Earnings per share (diluted)	$1.48	$1.55	$1.60	$1.78

52-Week range	$20.49 – $15.27	Fiscal year ends:	December
Shares outstanding as of 5/2/13	6.8 million	Revenue per share (TTM)	$19.74
Approximate float	5.1 million	Price/Sales (TTM)	1.0X
Market capitalization	$130 million	Price/Sales (2014)E	0.9X
Tangible book value/share	$9.72	Price/Earnings (TTM)	12.7X
Price/tangible book	2.0X	Price/Earnings (2014)E	10.8X

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 original equipment manufacturers in the computer, electronics, automotive, medical/pharmaceutical and industrial markets. (www.ufpt.com)

Key investment considerations:

Reiterating Speculative Buy rating on UFP Technologies. Maintaining twelve-month price target of $21.00.

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.

The company expanded its molded fiber product line in the second half of 2012 to accommodate heavier products (such as personal computers) and increased capacity to meet the strong demand for its molded fiber products.

The recent acquisition of Packaging Alternatives Corporation should be accretive to 2013 revenue by approximately $10 million, boosting revenue growth to 9%.

We project 2013 revenue of $143.1 million and EPS of $1.60, down from our previous projection of $146 million revenue and EPS of $1.80 due primarily to reduced military sales. For 2014, we project revenue of $153.2 million and EPS of $1.78, down from our previous projection of $155 million revenue and EPS of $1.94 due primarily to reduced military sales.

UFPT reported 1Q13 (released 5/3/13) revenue increased 5% to $33.7 million and EPS decreased to $0.29 from $0.33 in the comparable period in 2012. We estimated 1Q13 revenue of 34 million and EPS of $0.40.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and maintaining our **twelve-month price target of $21.00**.

With the 11% earnings growth we project for 2014, we believe the market will accord the stock a multiple of 12X. Applying a multiple of 12X to our 2014 earnings estimate of $1.78 per share discounted to a twelve-month value of $1.70 per share gives us a price target of approximately $21.00.

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. 95% of UFPT's sales are to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the United States.

Components products accounted for 67% of sales in 2012 while packaging products comprised 33%. We believe that approximately 35% of total 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 2013, IBISWorld forecasted the urethane foam products industry to grow at an average annual rate of 3.4% to $10.4 billion over the five years to 2018. However, UFP Technologies' revenue should grow at a higher rate given the growth projected for UFPT's principal end markets driven by an aging population, increasing automotive demand, and innovative new electronics products.

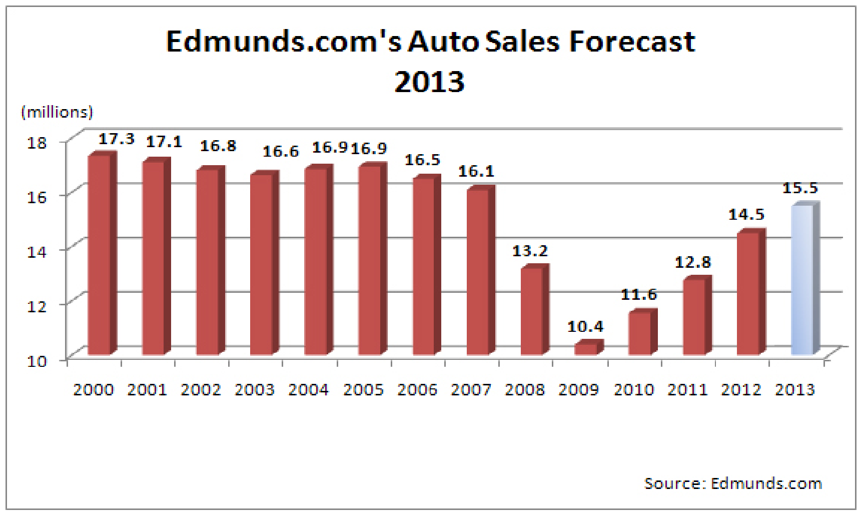
The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors that should influence the medical device industry over the next five years. Incidences 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.

Recent medical advancements have further boosted the size of the 65 and older age group, as superior nutrition and improved safety have Americans living longer than ever. However, a changing regulatory environment could slow the rate of growth for the medical device industry. For example, the FDA's impending 510(k) reform could increase regulatory costs and restrain innovation. One of the pathways that a new or significantly modified medical device must go through to be cleared for marketing in the US is an FDA regulatory review process known as the 510(k) premarket notification process.

One of the modifications that could be costly and burdensome for manufacturers of large or custom devices is a requirement for manufacturers to have one unit of a device available prior to receiving 510(k) clearance. This could force manufacturers to incur manufacturing costs without knowing whether a device will ultimately be cleared.

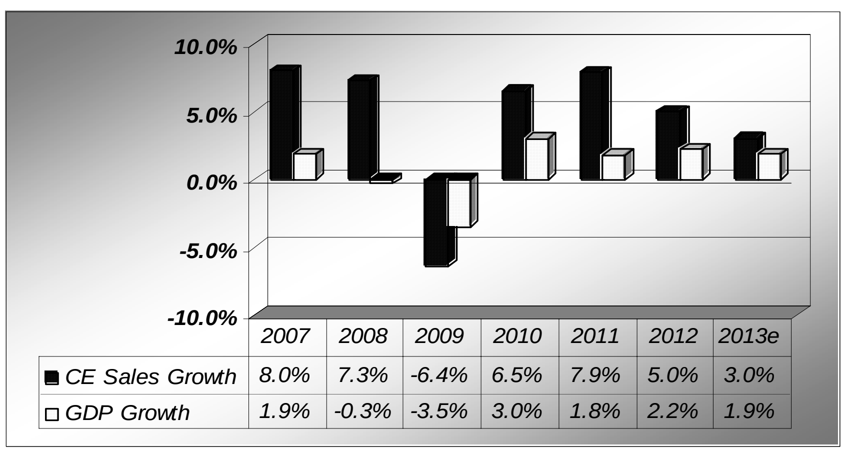
In March 2013, IBISWorld forecasted medical device industry average annual sales growth of 7% to $49.5 billion during the five years to 2018.

In April 2013, the automotive research firm Edmunds raised its 2013 auto sales forecast to 15.5 million, up from 15 million after reviewing first quarter auto sales and macroeconomic trends. Edmunds said that buyers were feeling wealthier thanks to rising home prices and a strong stock market. Home mortgage refinancing and an improving labor market were putting more cash in some buyer's pockets. Pent-up demand was also cited as a reason for the upward revision as aging vehicles causes drivers to replace their vehicles. An environment of increasing automotive sales should help drive growth of UFPT's automotive products.



In January 2013, IBISWorld projected revenue growth of 2.2% in 2013 and 4.2% in 2014 for the US automobile industry. Growth will be driven by renewed consumer spending and a move toward green 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 consumer electronics sales were affected by changes in the economy over the past six years with the Consumer Electronics Association's projection for 2013.



In January 2013, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.3% to $76.9 billion during the five years to 2017. Driving this growth will be the introduction of innovative new technologies (like tablet computers and 3D displays) and renewed consumer spending. In May 2013, the US Census Bureau reported that new orders for computers and electronics were up 0.5% sequentially in March 2013. However, computer and electronics orders decreased sequentially by 2.5% in February following a 5% decrease in January. 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. The mandated budget cuts that went into effect on March 1, 2013 are expected to reduce the US government's defense spending by roughly 13% over seven months.

Economic Outlook

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

In April 2013, the International Monetary Fund (IMF) revised its projections for US economic growth to 1.9% in 2013 and 3% in 2014. These are slightly changed from earlier projections (January 2013) of 2.1% in 2013 and 3.1% in 2014. The IMF said that recent policy actions in the US have improved the short-term risk picture but a larger-than-expected fiscal adjustment from automatic spending cuts or failure to raise the debt ceiling could exert a stronger drag on growth. In May 2013, the IMF said that the magnitude of recent budget cuts in the US was too much and was adversely affecting growth. Most economists think the US economy would be growing much more quickly were it not for the efforts to shrink the deficit. In May 2013, the Congressional Budget Office said that the deficit will fall from seven percent of the economy in 2012 or $1.1 trillion, to four percent in 2013 or $0.6 trillion, making this the sharpest contraction in the deficit since 1969.

In May 2013, The Conference Board projected US economic growth of 1.6% in 2013 and 2.2% in 2014.

As the company sells 95% of its products in the US, a growing (albeit slowly) 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 again 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 (GPK), Packaging Corp. of America (PKG), Greif (GEF), Bemis Company (BMS), and Sealed Air Corp (SEE). Sales and gross margins for UFP Technologies and its public competitors are shown at right.

Symbol	Sales TTM	Gross Margin
GPK	$4.4B (3/13)	16.8%
PKG	$2.9B (3/13)	23.1%
GEF	$4.3B (1/13)	18.4%
BMS	$5.1B (3/13)	18.8%
SEE	$7.7B (3/13)	31.3%
UFPT	$133M (3/13)	28.6%

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

UFPT's sales growth slowed to 5% in 2011 and 3% in 2012 due to the loss of a long-term automotive program that accounted for 9% of 2010 sales. Excluding sales from this automotive program, UFPT achieved organic sales growth of approximately 7% in 2012 and 8% in 2011.

In the second half of 2012 a new door panel program for Cadillac ATS and XTS vehicles was launched, the company expanded its molded fiber product line to accommodate heavier products (such as personal computers) and increased its capacity to meet the strong demand for its molded fiber products (sales up 21% in 2012). However, the increased sales associated with these efforts are being partially offset by reduced military sales (down $0.5 million in 1Q13 alone) stemming from budget cuts associated with the sequester.

The recent acquisition of Packaging Alternatives Corporation should be accretive to 2013 revenue by approximately $10 million, boosting revenue growth to 9%. Excluding sales from PAC, we project UFPT's organic sales growth would be approximately 2% in 2013, down from our previous projection of 4% primarily due to the adverse effect of reduced military sales.

2013 Forecast

For 2013, we project revenue of $143.1 million and net income of $11.4 million or $1.60 per share. Our projections are down from $146 million revenue and net income of $12.9 million or $1.80 per share due primarily to reduced military sales. SG&A expenses should increase to $23.5 million from $21.5 million in 2012 due to increased sales and additional employees. SG&A margins are projected to remain at 16.4%. With the addition of lower margin sales from newly acquired Packaging Alternatives Corporation (acquired in December 2012), gross margins are projected to decrease to 28.4% (versus 29.2% in 2012). Taxes are estimated at 33.4% as the company receives a domestic production deduction which typically offsets state taxes.

In 2013, we project $13.4 million cash from operations consisting of cash earnings of $15.1 million and increases in working capital of $1.7 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by a decrease in refundable income taxes and increases in accrued expenses and accounts payable. We project 49 days sales outstanding in 2013 and inventory turnover of 10X, both figures in line with 2012 actual numbers. Cash from operations should cover capital expenditures and a $1 million repayment of long-term debt increasing cash by $9.8 million to $43.3 million at the end of the year.

2014 Forecast

For 2014, we project revenue of $153.2 million and net income of $12.8 million or $1.78 per share. Our projections are down from $155 million revenue and net income of $14 million or $1.94 per share previously due primarily to reduced military sales. Higher sales volume should increase overhead coverage resulting in gross margins of 29% (versus 28.4% in 2013). SG&A expenses should increase to $25.1 million from $23.5 million in 2013 as sales increase while SG&A margins are projected to remain at 16.4%. Taxes are estimated at 34%.

In 2014, we project cash earnings of $16.9 million and increases in working capital of $1.2 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by increases in accrued expenses and accounts payable. We project 49 days sales outstanding in 2013 and inventory turnover of 10X, both figures in line with 2012 actual numbers and our 2013 estimates. Cash from operations of $15.7 million should cover capital expenditures and a $1 million repayment of long-term debt increasing cash by $11.7 million to $55 million at the end of the year.

1Q13 Financial Results

1Q13 sales increased 5% to $33.7 million. Net income decreased to $2 million or $0.29 per share from $2.3 million or $0.33 per share. We projected 1Q13 sales of $34 million and net income of $2.8 million or $0.40 per share.

The increase in sales was primarily due to increased sales to the medical industry offset in part by lower sales to the automotive and defense markets. The increase in sales to the medical industry was mostly due to the December 2012 acquisition of Packaging Alternatives Corporation (PAC). The decrease in sales to the automotive market was due to temporary holiday plant shutdowns at certain customers while the decrease in sales to the defense market was due to government spending cuts.

Gross margins decreased to 26.4% from 28.8% primarily due to product mix and non-recurring costs ($150,000) associated with the integration of the newly acquired PAC operations. SG&A expenses increased to $5.9 million from $5.5 million primarily from the inclusion of the PAC operations. The company showed an effective income tax rate of approximately 30% in 1Q13.

Liquidity

The company has a strong balance sheet. Long-term debt is $8.5 million, tangible equity is $66.1 million, and cash (approximately $4.70 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is 0.1 versus 1.4 for the industry.

Cash of $115,000 from operations in the first three months of 2013 consisted of cash earnings of $3.2 million and a $3.1 million increase in working capital. This cash only partially covered capital expenditures of $1.3 million $201,000 used in financing activities decreasing cash by $1.5 million to $31.9 million as of March 31, 2013.

UFPT's available bank credit facilities are as follows: a $17 million revolving line of credit, a $2.1 million term loan with seven-year straight-line amortization, a $1.8 million term loan with 20-year straight-line amortization, and a $4 million term loan with 20-year straight-line amortization.

As of March 31, 2013, the company had approximately $16.9 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, 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 March 31, 2013. The interest rate on these facilities was 1.2% at March 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 $4.6 million as of March 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 27% of total revenues in 2012. A single automotive program accounted for approximately 4% of total sales in 2012. The loss of sales to a large customer would have a materially 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 6.8 million shares outstanding and 5.1 million in the float, liquidity issues must be considered. Average daily volume has been approximately 17,000 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 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 $)

	2010A	2011A	2012A	3/13A	2013E	2014E
Cash and cash equivalents	22,103	29,849	33,479	31,942	43,302	55,036
Receivables	14,634	15,619	17,836	18,514	19,496	20,865
Inventories	8,044	9,758	9,695	10,531	10,712	11,366
Prepaid expenses	1,035	559	654	1,540	1,540	1,540
Refundable income taxes	1,414	1,086	1,714	937	937	937
Deferred income taxes	1,209	1,169	1,116	1,121	1,121	1,121
Total current assets	48,439	58,040	64,494	64,585	77,107	90,865
Net property, plant and equipment	12,575	13,346	23,318	23,730	23,660	23,895
Goodwill	6,481	6,481	7,039	7,039	7,039	7,039
Intangible assets	594	399	2,084	1,950	1,950	1,950
Other assets	1,389	1,455	1,682	1,764	1,864	1,964
Total assets	**69,478**	**79,721**	**98,617**	**99,068**	**111,620**	**125,713**
Current portion of long-term debt	654	581	1,550	1,544	1,544	1,544
Accounts payable	2,838	3,344	4,088	4,685	4,517	4,793
Accrued expenses	6,679	5,540	7,593	5,362	8,299	8,882
Total current liabilities	10,171	9,465	13,231	11,591	14,360	15,219
Long-term debt	6,847	5,639	8,314	8,514	7,314	6,314
Deferred income taxes	881	1,292	1,589	1,591	1,591	1,591
Other liabilities	1,352	1,340	2,222	2,297	2,297	2,297
Total liabilities	**19,251**	**17,736**	**25,356**	**23,993**	**25,562**	**25,421**
Total stockholders' equity	**50,227**	**61,985**	**73,261**	**75,075**	**86,058**	**100,292**
Total liabilities & stockholders' equity	**69,478**	**79,721**	**98,617**	**99,068**	**111,620**	**125,713**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2010A	2011A	2012A	2013E	2014E
Net sales	120,766	127,244	130,962	143,147	153,200
Cost of sales	86,150	90,999	92,777	102,505	108,772
Gross profit	34,616	36,245	38,185	40,643	44,428
Extraordinary items	-	(839)	(12)	-	-
SG&A	20,236	21,368	21,531	23,471	25,100
Operating income	14,380	15,716	16,666	17,172	19,328
Non-operating expenses	46	(27)	(92)	(40)	140
Income before taxes	14,426	15,689	16,574	17,132	19,468
Income tax	5,019	4,906	5,679	5,719	6,619
Net Income / (Loss)	9,247	10,346	10,895	11,412	12,849
EPS	1.37	1.48	1.55	1.60	1.78
Shares Outstanding	6,757	6,999	7,028	7,135	7,238
Margin Analysis					
Gross margin	28.7%	28.5%	29.2%	28.4%	29.0%
SG&A	16.8%	16.8%	16.4%	16.4%	16.4%
Operating margin	11.9%	12.4%	12.7%	12.0%	12.6%
Pretax margin	11.9%	12.3%	12.7%	12.0%	12.7%
Tax rate	34.8%	31.3%	34.3%	33.4%	34.0%
Year / Year Growth					
Total Revenues	21.7%	5.4%	2.9%	9.3%	7.0%
Net Income	56.0%	11.9%	5.3%	4.7%	12.6%
EPS	45.3%	8.0%	4.9%	3.2%	11.0%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2012 -2014E
(in thousands $)

	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13E	9/13E	12/13E	2013E	3/14E	6/14E	9/14E	12/14E	2014E
Net sales	31,952	33,673	31,967	33,370	130,962	33,697	36,500	35,750	37,200	143,147	36,000	39,100	38,300	39,800	153,200
Cost of sales	22,751	23,982	22,741	23,303	92,777	24,795	25,915	25,383	26,412	102,505	25,560	27,761	27,193	28,258	108,772
Gross profit	9,201	9,691	9,226	10,067	38,185	8,902	10,585	10,368	10,788	40,643	10,440	11,339	11,107	11,542	44,428
Extraordinary items	(5)	(7)	-	-	(12)	-	-	-	-	-	-	-	-	-	-
SG&A	5,518	5,392	5,156	5,465	21,531	5,946	5,850	5,725	5,950	23,471	6,325	6,275	6,125	6,375	25,100
Operating income	3,688	4,306	4,070	4,602	16,666	2,956	4,735	4,643	4,838	17,172	4,115	5,064	4,982	5,167	19,328
Non-operating expenses	(17)	(14)	(14)	(47)	(92)	(40)	(10)	-	10	(40)	20	30	40	50	140
Income before taxes	3,671	4,292	4,056	4,555	16,574	2,916	4,725	4,643	4,848	17,132	4,135	5,094	5,022	5,217	19,468
Income tax	1,322	1,545	1,460	1,352	5,679	886	1,607	1,578	1,648	5,719	1,406	1,732	1,707	1,774	6,619
Net Income / (Loss)	2,349	2,747	2,596	3,203	10,895	2,030	3,119	3,064	3,200	11,412	2,729	3,362	3,315	3,443	12,849
EPS	0.33	0.39	0.37	0.45	1.55	0.29	0.44	0.43	0.45	1.60	0.38	0.47	0.46	0.47	1.78
Shares Outstanding	7,030	7,055	7,075	7,055	7,028	7,088	7,125	7,150	7,175	7,135	7,200	7,225	7,250	7,275	7,238
Margin Analysis															
Gross margin	28.8%	28.8%	28.9%	30.2%	29.2%	26.4%	29.0%	29.0%	29.0%	28.4%	29.0%	29.0%	29.0%	29.0%	29.0%
SG&A	17.3%	16.0%	16.1%	16.4%	16.4%	17.6%	16.0%	16.0%	16.0%	16.4%	17.6%	16.0%	16.0%	16.0%	16.4%
Operating margin	11.5%	12.8%	12.7%	13.8%	12.7%	8.8%	13.0%	13.0%	13.0%	12.0%	11.4%	13.0%	13.0%	13.0%	12.6%
Pretax margin	11.5%	12.7%	12.7%	13.6%	12.7%	8.7%	12.9%	13.0%	13.0%	12.0%	11.5%	13.0%	13.1%	13.1%	12.7%
Tax rate	36.0%	36.0%	36.0%	29.7%	34.3%	30.4%	34.0%	34.0%	34.0%	33.4%	34.0%	34.0%	34.0%	34.0%	34.0%
Year / Year Growth															
Total Revenues	1.4%	0.5%	3.9%	6.0%	2.9%	5.5%	8.4%	11.8%	11.5%	9.3%	6.8%	7.1%	7.1%	7.0%	7.0%
Net Income	6.5%	1.7%	6.6%	6.6%	5.3%	(13.6)%	13.5%	18.0%	(0.1)%	4.7%	34.4%	7.8%	8.2%	7.6%	12.6%
EPS	5.6%	0.6%	5.5%	5.9%	4.9%	(14.3)%	12.4%	16.8%	(1.8)%	3.2%	32.3%	6.3%	6.7%	6.1%	11.0%

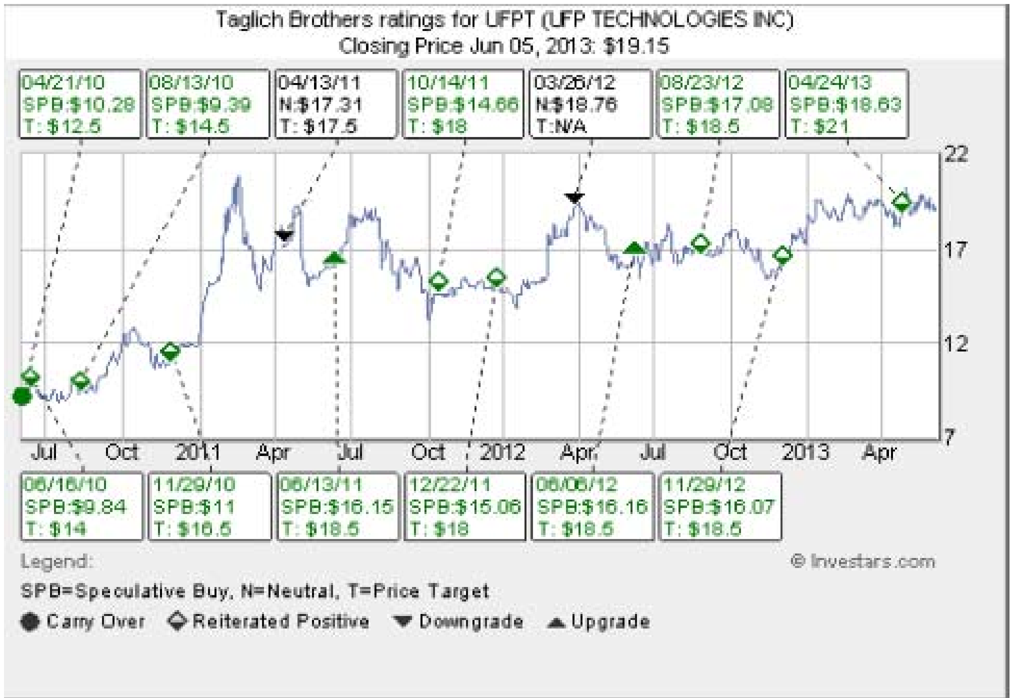
Source: Company filings and Taglich Brothers' estimates

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

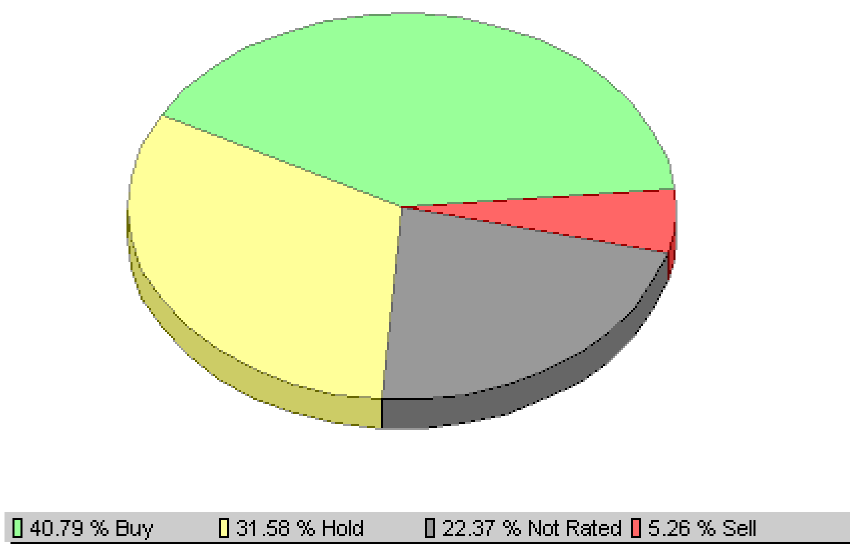
	2010A	2011A	2012A	3mos13A	2013E	2014E
Net income	9,407	10,784	10,895	2,030	11,412	12,849
Depreciation & amortization	3,152	2,781	2,928	974	3,093	3,265
Gain on acquisition	-	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(12)	(839)	(12)	-	-	-
Share-based compensation	964	1,089	860	179	860	860
Stock issued in lieu of compensation	79	55	-	-	-	-
Excess tax benefit on share-based compensation	(854)	(700)	(832)	-	(832)	(832)
Deferred income taxes	306	452	610	(4)	541	732
Changes in assets and liabilities						
Receivables	(415)	(985)	(842)	(678)	(1,660)	(1,369)
Inventories	(397)	(1,714)	801	(836)	(1,017)	(655)
Prepaid expenses	(559)	476	(65)	(886)	(886)	-
Refundable income taxes	(1,414)	327	(695)	777	777	-
Accounts payable	161	507	384	597	429	276
Accrued expenses and other	1,381	(440)	2,143	(2,031)	706	583
Retirement and other liabilities	234	(12)	190	75	75	-
Other assets	(205)	(65)	(203)	(82)	(82)	-
Net Cash Provided by Operations	**11,828**	**11,716**	**16,162**	**115**	**13,417**	**15,709**
Additions to property, plant and equipment	(3,286)	(3,741)	(11,994)	(1,252)	(3,500)	(3,500)
Redemption of cash value life insurance	-	-	-	-	-	-
Proceeds from sale of property, plant and equipment	12	1,223	86	-	-	-
Acquisitions	-	-	(3,596)	(200)	(200)	-
Net Cash Used in Investing	**(3,274)**	**(2,518)**	**(15,504)**	**(1,452)**	**(3,700)**	**(3,500)**
Proceeds from long-term borrowings	-	-	4,384	580	580	-
Distribution to United Development Company partners	(105)	(289)	(1,196)	-	-	-
Tax benefit from exercise of non-qualified stock options	854	700	832	-	832	832
Proceeds from exercise of stock options	507	250	365	31	365	365
Payment of statutory withholdings for stock options exercised	(485)	(830)	(672)	(426)	(672)	(672)
Principal repayments of long-term debt	(624)	(1,282)	(740)	(386)	(1,000)	(1,000)
Principle repayments of capital lease obligations	-	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**147**	**(1,451)**	**2,973**	**(201)**	**105**	**(475)**
Net Change in Cash	**8,701**	**7,747**	**3,631**	**(1,538)**	**9,822**	**11,734**
Cash - Beginning of Period	**13,401**	**22,102**	**29,849**	**33,480**	**33,480**	**43,302**
Cash - End of Period	**22,102**	**29,849**	**33,480**	**31,942**	**43,302**	**55,036**
Cash Flow from Operations	11,828	11,716	16,162	115	13,417	15,709
Capital Expenditures	(3,286)	(3,741)	(11,994)	(1,252)	(3,500)	(3,500)
Free Cash Flow	8,542	7,975	4,168	(1,137)	9,917	12,209

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	4
Hold	1	17
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

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.

Dropping Coverage

We have discontinued research coverage due to acquisition of the company, termination of research services, non-payment for such services 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.