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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

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UFPT $16.15 — (NASDAQ CM)

	2009A	2010A	2011E	2012E
Revenues (millions)	$99.2	$120.8	$131.6	$142.3
Earnings per share (diluted)	$0.94	$1.37	$1.48	$1.69

52-Week range	$21.59 – $8.51	Fiscal year ends:	December
Shares outstanding as of 5/4/11	6.5 million	Revenue per share (TTM)	$18.07
Approximate float	4.8 million	Price/Sales (TTM)	0.9X
Market capitalization	$105 million	Price/Sales (2012)E	0.8X
Tangible book value/share	$7.16	Price/Earnings (TTM)	11.1X
Price/tangible book	2.3X	Price/Earnings (2012)E	9.6X

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 raising our rating to Speculative Buy from Neutral on UFP Technologies (UFPT) and setting a twelve-month price target of $18.50 per share 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.

With an improving economic environment, the company should continue growing, though not at its current rate of 10%. The gradual phase out (over a three year period) of a long-term automotive program should diminish revenue growth in the short-term to an estimated 9.0% in 2011 and 8.1% in 2012. Our growth rates are higher than previously estimated (7.6% in 2011 and 6.7% in 2012) primarily due to the company saying that they only lost a portion (approximately 2/3) of this long-term program versus earlier estimates calling for a complete loss.

For 2011, we project revenue of $131.6 million and EPS of $1.48. We previously estimated revenue of $130.0 million and EPS of $1.48. The increase in our revenue estimate is primarily due to the reasons cited above while EPS remains unchanged due to greater share count.

For 2012, we project revenue of $142.3 million and net income of $12.3 million or $1.69 per share. We previously estimated revenue of $138.7 million and net income of $11.7 million or $1.63 per share. The increase in our estimates is also due to the partial instead of complete loss of an automotive program.

UFPT reported Q1/11 sales increased 10% to $31.5 million while EPS increased to $0.32 from $0.23. We estimated Q1/11 sales of $30.6 million and EPS of $0.31.

Please view our disclosures on pages 11 - 13.

Recommendation and Valuation

We are raising our rating to **Speculative Buy** from Neutral on UFP Technologies and setting a **twelve-month price target of $18.50 per share** 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 11X 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 $1.69 per share discounted to a twelve-month value of $1.54 per share gives us a price target of approximately $18.50. We derived a discount factor of 12.9% using the company's beta of 1.81.

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. Judging by the magnitude of revenue changes generated by UFPT's principal end markets, 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. We believe that the remaining industries UFPT sells to (automotive, defense, electronics, and industrial) are evenly split in regard to percent of total revenue to between 10% – 20%.

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.

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.

Growth is projected for the automobile industry, albeit at a moderate pace. The Wall Street Journal reported that the U.S. auto industry suffered its first significant setback in more than 18 months as new car and truck sales declined 3.7% in May 2011. This was due to higher prices, Japanese supply shortages and consumer jitters about the economy. In June 2011, The Wall Street Journal cited Edmunds Chief Economist, Lacey Plache saying that recent auto sales momentum is expected to continue, but at a moderate pace, given the fundamental steps that are still needed for a full economic recovery.

The global medical devices industry is large with estimated worldwide sales of more than $300 billion in 2011. Zacks estimates the U.S. market as the largest medical devices market with sales of roughly $95 billion in 2010. The U.S. medical devices industry continues to grow at a brisk pace, partly due to increased incidences of lifestyle diseases such as cardiovascular diseases, diabetes, hypertension and obesity. 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.

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. 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%.

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 reflecting an ability to find optimal fitting acquisition candidates and markets where its products add the most value. The company has grown organically by 10% over the past year and first quarter results show a continuation of that rate of growth. With an improving economic environment, the company should continue growing, though not at its current rate of 10%. The gradual phase out (over a three year period) of a long-term automotive program that was responsible for 9% of total sales in 2010 will diminish revenue growth in the short-term to an estimated 9.0% in 2011 and 8.1% in 2012. Our growth rates are higher than previously estimated (7.6% in 2011 and 6.7% in 2012) primarily due to the loss of only a portion (approximately 2/3) of this long-term program versus earlier estimates calling for a complete loss. Also, continued growth in sales to medical device manufacturers (8% CAGR into 2016) should help in offsetting lost automotive sales.

For 2011, we project revenue of $131.6 million and net income of $10.5 million or $1.48 per share. We previously estimated revenue of $130.0 million and net income of $10.4 million or $1.48 per share. The increase in our revenue estimate is primarily due to the loss of a portion (approximately 2/3) of a long-term automotive program versus earlier estimates calling for a complete loss. Although our net income estimate has increased, EPS remains unchanged due to greater share count stemming from the exercise of stock options. Higher sales of lower margin automotive products reduced our gross margin estimates to 29.2% from 29.4%. Although petroleum and petroleum-based raw materials are a significant portion of manufacturing costs, the company has provisions in most of its sales orders that allow it to pass on to its customers price fluctuations related to certain raw materials, including petroleum.

We project increased SG&A expenses with the higher level of sales. However, the SG&A margins should decrease to 16.7% from 16.8%. Operating margins should increase to 13.1% from 11.9%. We have decreased our tax rate projection to 36% from 37% due to income in the first quarter of 2011 related to the company's noncontrolling interest in UDT that was not subject to corporate income tax.

In 2011, we project $14.0 million cash from operations driven by cash earnings of $13.6 million and reductions in working capital of $0.5 million. $3.7 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $1.5 million in acquisitions. Financing activities consist primarily of $0.9 million principal repayments of long-term debt. We project an increase in cash of $9.7 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

For 2012, we project revenue of $142.3 million and net income of $12.3 million or $1.69 per share. We previously estimated revenue of $138.7 million and net income of $11.7 million or $1.63 per share. The increase in our estimates is primarily due to the loss of only a portion (approximately 2/3) of a long-term automotive program versus earlier estimates calling for a complete loss. Continued growth in sales to medical device manufacturers should help offset in part the partial phase out an automotive program resulting in revenue growth of 8.1%.

As the company is able to pass on to most of its customers price fluctuations related to certain raw materials, including petroleum which is a significant portion of its manufacturing costs, we believe cost of sales will be minimally impacted from energy fluctuations. The higher sales volume that we are projecting should increase overhead coverage resulting in gross margin improvement to 29.8% (up from 29.2%). We project increased SG&A expenses with the higher level of sales, however, the SG&A margin should decrease to 16.0% from 16.7%. Operating margins should increase to 13.8% from 13.1%. We are maintaining a tax rate projection of 37%.

In 2012, we project $15.5 million cash from operations driven by cash earnings of $16.5 million and increases in working capital of $1.0 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. $3.7 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $1.5 million in acquisitions. Financing activities consist primarily of $0.8 million principal repayments of long-term debt. We project an increase in cash of $11.0 million for a year end cash balance of $45.1 million.

Q1 Financial Results

For the first quarter sales increased 10% to $31.5 million. Net income was $2.2 million or $0.32 per share in Q1/11 versus net income of $1.5 million or $0.23 per share in Q1/10. The results for Q1/11 included a $0.8 million gain from the sale of real estate in Alabama by an affiliated partnership, UDT (the company consolidates the realty limited partnership's financial statements of which it owns 26.32%). Of this $0.8 million gain, approximately $428,000 relates to non-controlling interests that have been deducted to determine net interest attributable to UFPT.

We projected Q1/11 sales of $30.6 million and net income of $2.2 million or $0.31 per share.

The increase in sales was primarily due to a $1.6 million increase in sales of interior trim parts to the automotive industry as well as a $0.7 million increase in sales to the defense and aerospace industry. Gross margins increased to 27.9% from 26.0% due to product mix and increased manufacturing overhead coverage. SG&A expenses increased to $5.7 million from $5.0 million primarily due to a $0.3 million increase in professional fees and a $0.2 million increase in salaries.

The company recorded a tax expense of approximately 37% excluding net income attributable to noncontrolling interests in Q1/11 and Q1/10. For Q1/11, this resulted in an effective tax rate of approximately 33% since the noncontrolling interest in UDT was not subject to corporate income tax.

Liquidity

The company has a strong balance sheet. Long-term debt is $6.7 million (for a debt/equity ratio of 0.1 versus 1.0 for the industry) and cash (almost $4.00 per share) exceeds all indebtedness and liabilities.

Cash of $415,000 from operations consisted mainly of cash earnings of $2.5 million offset by increases in working capital of $2.1 million. Capital expenditures of $253,000 and proceeds of $1.2 million from the sale of fixed assets resulted in $1.0 million cash from investing activities. Payment of $0.6 million in statutory withholdings for stock options accounted for most of the cash used in financing activities. The net result was a $0.8 million net increase in cash for a balance of $25.2 million as of March 31, 2011.

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 March 31, 2011, 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, 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 March 31, 2011. The interest rate on these facilities was 1.29% and there were no borrowings outstanding on the line of credit.

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. Approximately 2/3 of this program is scheduled to phase out beginning in Q3/11. 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.

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 6.5 million shares outstanding and 4.8 million in the float, liquidity issues must be considered. Average daily volume has been approximately 69,000 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 Sheet for the Periods Ended
(in thousands $)

	2008A	2009A	2010A	3/11A	2011E	2012E
Current assets:						
Cash and cash equivalents	6,729	14,999	24,434	25,244	34,159	45,123
Receivables	12,755	14,218	14,634	15,863	15,947	17,237
Inventories	8,153	7,647	8,044	9,101	8,705	9,319
Prepaid expenses	516	476	1,035	1,032	1,128	1,200
Refundable income taxes	-	-	1,414	1,147	-	-
Deferred income taxes	1,489	1,411	1,209	1,202	1,000	800
Total current assets	29,642	38,751	50,770	53,589	60,940	73,680
Net property, plant and equipment	11,754	12,218	12,575	11,807	13,475	13,875
Deferred income taxes	-	-	-	-	-	-
Goodwill	6,481	6,481	6,481	6,481	6,481	6,481
Other assets	846	2,002	1,983	1,993	2,000	2,000
Total assets	**48,723**	**59,452**	**71,809**	**73,870**	**82,896**	**96,036**
Current liabilities:						
Current portion of long-term debt	717	623	654	650	650	650
Current portion of capital lease obligations	703	-	-	-	-	-
Accounts payable	3,304	4,274	5,169	5,729	5,594	5,988
Accrued taxes and other expenses	6,230	6,153	6,679	5,751	7,278	7,867
Total current liabilities	10,954	11,050	12,502	12,130	13,522	14,505
Long-term debt	3,942	7,502	6,847	6,695	6,000	5,200
Capital lease obligations	910	-	-	-	-	-
Minority interest	523	-	-	-	-	-
Deferred income taxes	113	777	881	871	1,000	1,150
Other liabilities	914	1,118	1,353	1,423	1,474	1,500
Total liabilities	**17,356**	**20,447**	**21,583**	**21,119**	**21,996**	**22,355**
Total stockholders' equity	**31,367**	**39,005**	**50,226**	**52,751**	**60,900**	**73,680**
Total liabilities & stockholders' equity	**48,723**	**59,452**	**71,809**	**73,870**	**82,896**	**96,036**

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	131,604	142,250
Cost of sales	81,469	72,512	86,150	93,232	99,805
Gross profit	28,563	26,719	34,616	38,373	42,445
Extraordinary items	1,315	-	-	(834)	-
SG&A	18,823	18,539	20,236	22,001	22,750
Operating income	8,425	8,180	14,380	17,206	19,695
Interest exp, other inc and exp	(314)	618	46	47	60
Income before taxes	8,111	8,798	14,426	17,253	19,755
Income tax	2,995	2,817	5,019	6,215	7,309
Income attrib. to noncontrol. interests	-	(52)	(160)	(548)	(160)
Net Income / (Loss)	5,116	5,929	9,247	10,490	12,286
EPS	0.82	0.94	1.37	1.48	1.69
Shares Outstanding	6,263	6,294	6,757	7,067	7,275
Margin Analysis					
Gross margin	26.0%	26.9%	28.7%	29.2%	29.8%
SG&A	17.1%	18.7%	16.8%	16.7%	16.0%
Operating margin	7.7%	8.2%	11.9%	13.1%	13.8%
Tax rate	36.9%	32.0%	34.8%	36.0%	37.0%
Year / Year Growth					
Total Revenues	17.6%	-9.8%	21.7%	9.0%	8.1%
Net Income	23.0%	15.9%	56.0%	13.4%	17.1%
EPS	15.1%	15.3%	45.3%	8.5%	13.8%

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	3/11A	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	31,504	33,350	32,100	34,650	131,604	33,450	36,250	34,850	37,700	142,250
Cost of sales	21,243	20,911	21,562	22,434	86,150	22,702	23,478	22,727	24,324	93,232	23,616	25,375	24,500	26,315	99,805
Gross profit	7,457	9,046	8,906	9,206	34,616	8,802	9,872	9,373	10,326	38,373	9,834	10,875	10,350	11,385	42,445
Extraordinary items	-	-	-	-	-	(834)	-	-	-	(834)	-	-	-	-	-
SG&A	5,012	5,387	5,103	4,734	20,236	5,726	5,400	5,425	5,450	22,001	5,650	5,675	5,700	5,725	22,750
Operating income	2,445	3,659	3,803	4,472	14,380	3,910	4,472	3,948	4,876	17,205	4,184	5,200	4,650	5,660	19,695
Interest exp, other inc and exp	(35)	(22)	(35)	139	46	2	15	15	15	47	15	15	15	15	60
Income before taxes	2,410	3,637	3,768	4,611	14,426	3,912	4,487	3,963	4,891	17,253	4,199	5,215	4,665	5,675	19,755
Income tax	888	1,339	1,389	1,403	5,019	1,279	1,660	1,466	1,810	6,215	1,554	1,930	1,726	2,100	7,309
Income attrib. to noncontrol. interests	(11)	(16)	(14)	(119)	(160)	(428)	(40)	(40)	(40)	(548)	(40)	(40)	(40)	(40)	(160)
Net Income / (Loss)	1,511	2,282	2,365	3,089	9,247	2,205	2,787	2,457	3,041	10,490	2,606	3,245	2,899	3,536	12,286
EPS	0.23	0.34	0.35	0.45	1.37	0.32	0.40	0.35	0.43	1.48	0.36	0.45	0.40	0.48	1.69
Shares Outstanding	6,642	6,725	6,785	6,875	6,757	6,989	7,050	7,100	7,150	7,067	7,200	7,250	7,300	7,350	7,275
Margin Analysis															
Gross margin	26.0%	30.2%	29.2%	29.1%	28.7%	27.9%	29.6%	29.2%	29.8%	29.2%	29.4%	30.0%	29.7%	30.2%	29.8%
SG&A	17.5%	18.0%	16.7%	15.0%	16.8%	18.2%	16.2%	16.9%	15.7%	16.7%	16.9%	15.7%	16.4%	15.2%	16.0%
Operating margin	8.5%	12.2%	12.5%	14.1%	11.9%	12.4%	13.4%	12.3%	14.1%	13.1%	12.5%	14.3%	13.3%	15.0%	13.8%
Tax rate	36.8%	36.8%	36.9%	30.4%	34.8%	37.0%	37.0%	37.0%	37.0%	36.0%	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%	9.8%	11.3%	5.4%	9.5%	9.0%	6.2%	8.7%	8.6%	8.8%	8.1%
Net Income	338.0%	303.2%	12.0%	6.3%	56.0%	45.9%	22.1%	3.9%	-1.5%	13.4%	18.2%	16.5%	18.0%	16.3%	17.1%
EPS	305.7%	271.2%	4.0%	0.5%	45.3%	39.1%	16.5%	-0.7%	-6.3%	8.5%	14.4%	13.3%	14.8%	13.1%	13.8%

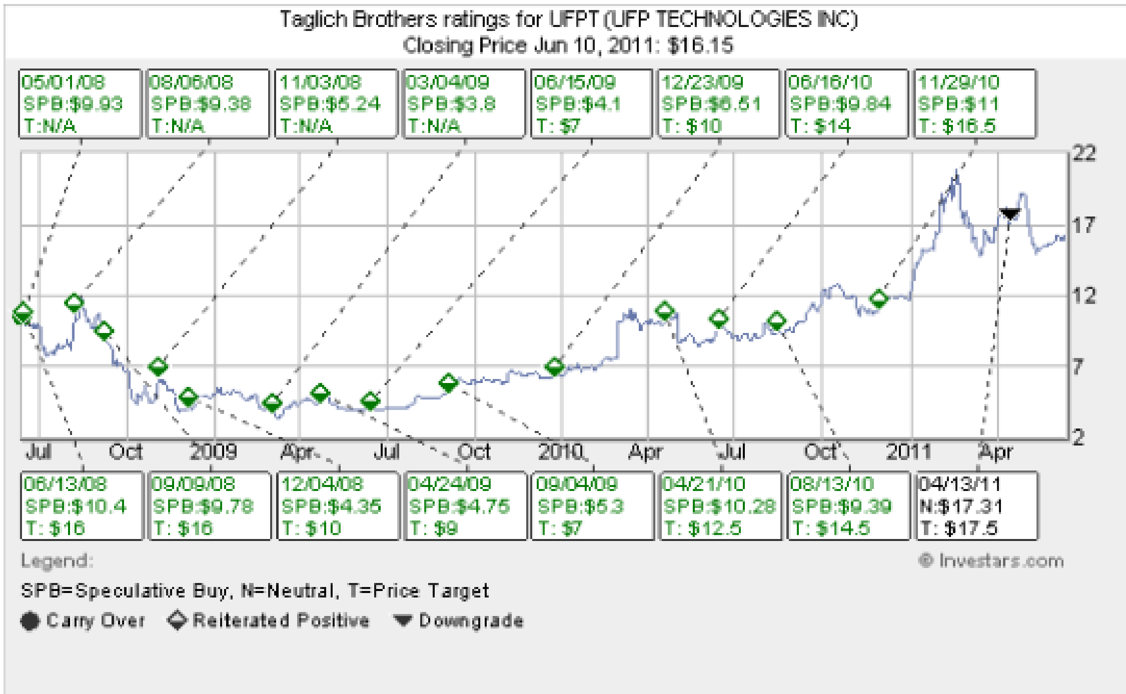
Source: Company filings and Taglich Brothers' estimates

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

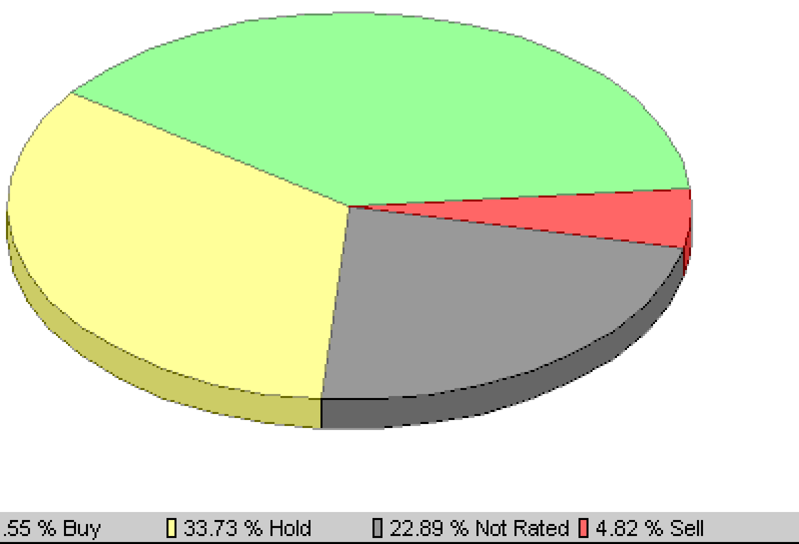
	2008A	2009A	2010A	3mos11A	2011E	2012E
Cash Flows from Operating Activities						
Net income	5,116	5,982	9,407	2,633	10,490	12,286
Depreciation & amortization	2,977	2,895	3,152	692	2,800	2,800
Restructuring leasehold improvement write-off	170	-	-	-	-	-
Equity in net income of unconsolidated affiliate	(7)	-	-	-	-	-
Minority interest	44	-	-	-	-	-
Gain on acquisition	-	(840)	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(57)	(11)	(12)	(834)	(834)	-
Share-based compensation	1,306	901	964	249	1,000	1,000
Stock issued in lieu of compensation	344	184	79	55	200	200
Excess tax benefit on share-based compensation				(297)	(297)	
Deferred income taxes	16	227	306	(2)	200	200
Changes in assets and liabilities						
Receivables	777	(342)	(415)	(1,230)	(1,313)	(1,290)
Inventories	(435)	1,863	(397)	(1,056)	(661)	(614)
Prepaid expenses	350	73	(559)	4	(93)	(72)
Refundable income taxes	-	-	(1,414)	267	1,414	-
Accounts payable	(2,777)	393	895	560	425	394
Accrued expenses and other	(937)	(331)	527	(631)	599	589
Retirement and other liabilites	(119)	204	234	70	121	26
Other assets	(83)	(509)	(205)	(66)	(17)	-
Net Cash Provided by Operations	**6,685**	**10,689**	**12,562**	**414**	**14,033**	**15,519**
Cash Flows from Investing Activities						
Additions to property, plant and equipment	(2,763)	(1,857)	(3,286)	(253)	(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	1,218	-	-
Acquisitions	(5,181)	(2,435)	-	-	(1,500)	(1,500)
Net Cash Used in Investing	**(7,851)**	**(4,279)**	**(3,274)**	**965**	**(3,700)**	**(3,700)**
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)	(105)
Tax benefit from exercise of non-qualified stock options	211	23	854	297	297	-
Net proceeds from sale of common stock	20	-	-	-	-	-
Proceeds from exercise of stock options	333	130	507	34	700	700
Payment of statutory witholdings for stock options exercised	-	-	(485)	(639)	(650)	(650)
Principal repayments of long-term debt	(714)	(577)	(624)	(156)	(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**	**(569)**	**(608)**	**(855)**
Net Change in Cash	**(2,331)**	**8,269**	**9,435**	**810**	**9,725**	**10,964**
Cash - Beginning of Period	**9,060**	**6,729**	**14,999**	**24,434**	**24,434**	**34,159**
Cash - End of Period	**6,729**	**14,999**	**24,434**	**25,244**	**34,159**	**45,123**
Cash Flow from Operations	6,685	10,689	12,562	414	14,033	15,519
Capital Expenditures	(2,763)	(1,857)	(3,286)	(253)	(2,200)	(2,200)
Free Cash Flow	3,922	8,832	9,276	161	11,833	13,319

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		

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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.