

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

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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: Buy

John Nobile

UFPT \$3.19 — (NASDAQ SC)

June 14, 2005

	FY (2003)*	FY (2004)	FY (2005)E	FY (2006)E
Revenues (millions)	\$60.9	\$68.6	\$78.9	\$90.0
Earnings per share (diluted)	\$(0.34)	\$0.17	\$0.39	\$0.75

52week range	\$2.50 – \$6.39	Fiscal year ends:	December
Shares outstanding (millions)	4.8	Revenue per share (TTM)	\$13.88
Trading float (millions)	3.3	Price/Sales (TTM)	0.2X
Insider + 5% ownership	31%	Price/Sales (2006)E	0.2X
Tangible book value/share	\$1.59	Price/Earnings (TTM)	17.7X
Price/tangible book	2.0X	Price/Earnings (2006)E	4.3X

*Includes a \$1.4 million restructuring charge.

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 Buy rating for shares of UFP Technologies (UFPT) with a twelve-month price target of \$8.50.

For the first quarter ended March 31, 2005 versus the same period in 2004: net sales increased 14% to \$18.2 million from \$15.9 million. Net income was \$0.1 million or \$0.02 per diluted share versus net income of \$0.1 million or \$0.01 per diluted share.

UFP Technologies experienced significant phase-in costs in the first quarter of 2005 and the Company expects further costs to be incurred throughout 2005. However, increasing sales volumes from the automotive program are expected over the next couple of years.

The previously announced \$77 million automotive contract has recently been estimated to be worth \$95 million due to design enhancements and strong growth continues in the military and medical markets.

Besides the boost to UFPT's components products that should come from the large automotive contract, we believe that sales of UFP Technologies' packaging products should also do well when you take into consideration forecasts for the markets that the Company sells to.

**Please view our disclaimer located on page 8 of this report.*

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Business

The Company operates in two segments: Packaging Products and Component Products.

UFP Technologies' packaging products are used to contain, display and/or protect manufactured goods during shipment, handling, storage, marketing and use. The interior 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 which do not require custom-designed packaging. Examples of the Company's packaging products include end-cap packs for computers, corner blocks for telecommunications consoles, anti-static foam packs for printed circuit boards, die-cut inserts for attaché cases and plastic trays for medical devices and components.

The Company's component products segment features specialty foam and plastic products that are sold primarily to customers in the automotive, sporting goods, medical, beauty, leisure and footwear industries. These products include components for automobiles and medical diagnostic equipment, abrasive nail files and anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

Recent Financial Results

For the first quarter ended March 31, 2005, versus the same period in 2004:

- Net sales increased 14% to \$18.2 million from \$15.9 million.
- Gross margins decreased to 19.9% from 20.3%.
- SG&A expenses increased to \$3.1 million from \$3.0 million.
- Net income was \$0.1 million or \$0.02 per diluted share versus net income of \$0.1 million or \$0.01 per diluted share.

In comparison, Taglich Brothers' estimates called for first quarter net sales of \$18.3 million and net income of \$0.3 million or \$0.05 per diluted share.

The Company attributed the increase in first quarter net sales primarily to increased sales for the new automotive contract as well as increased sales of case insert products mostly for military applications. The decreased in gross margins was primarily due to higher material and labor costs associated with the phase-in of automotive programs. The decrease in gross margins was partially offset by a gain on the settlement of an insurance claim associated with damages sustained in the Company's Kissimmee, Florida manufacturing plant from Hurricane Charley in August, 2004. Approximately 74% of the gain was eliminated through minority interest.

Balance Sheet as of March 31, 2005

Cash and cash equivalents was approximately \$0.1 million. The Company has working capital of \$1.5 million, a tangible book value of \$1.59 per share and a long-term debt-to-equity ratio of 0.4X. Cash provided by operations during the first quarter of 2005 was approximately \$0.3 million. UFPT has an available balance under its line of credit of approximately \$2.9 million. We believe that UFPT's current line of credit and future expected cash flows from operations will be sufficient to fund operations for the next twelve months.

Discussion and Outlook

UFPT's first quarter net sales were in line with our expectations. The bottom line was less than we expected primarily due to the unexpected minority interest expense of \$0.2 million relating to the gain on the insurance claim from Hurricane Charley. Excluding the unexpected gain, we believe that UFPT's bottom line results would have been in line with our expectations. We also believe that minority interest expenses will revert back to more historic levels going forward in light of the extraordinary event in the first quarter.

As mentioned in our last report, the Company's long-term outlook continues to improve as the previously announced \$77 million automotive contract has recently been estimated to be worth \$95 million due to design enhancements and strong growth continues in the military and medical markets.

The eight-year automotive contract calls for UFPT to provide molded door panels to a large Tier-1 automotive supplier. Manufacturing began in the fourth quarter of 2004 and full rate production is estimated for 2006.

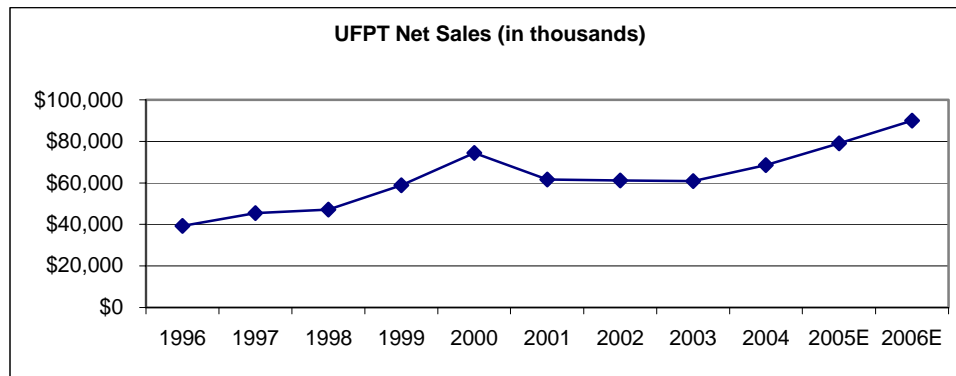
We believe that there may be additional contracts for automotive trim products in the Company's future when you consider the positive outlook for this market. According to CSM Worldwide, the North American automotive interior trim market will grow to over \$10 billion by 2009 for a 33 percent increase from the \$7.5 billion market in 2004.

UFP Technologies experienced significant phase-in costs in the first quarter of 2005 and the Company expects further costs to be incurred throughout 2005. However, increasing sales volumes from the automotive program are expected over the next couple of years. The Company has met every milestone in this program to date, and will now focus on fulfilling increasing production demand.

Besides the boost to UFPT's components products that should come from the large automotive contract, we believe that sales of UFP Technologies' packaging products should also do well when you take into consideration forecasts for the markets that the Company sells to. A significant portion of the Company's packaging products sales are to manufacturers of computer peripherals and other consumer products. According to a report by Research and Markets (IT Spending and Trends, March 2005), many analysts are predicting that the worldwide technology market will show moderate spending growth in 2005. After showing steady improvement during 2004, aggregated estimates suggest spending will grow between 4% and 8% this year. eMarketer projects that IT spending will come in at the higher end of the range, between 6% and 8%.

We believe the above information suggests that UFP Technology's sales should continue to grow in 2005 and beyond.

For fiscal 2005, we estimate UFPT's sales will increase by 15% to \$78.9 million and the Company will report net income of \$2.1 million or \$0.39 per diluted share. Our fiscal 2005 earnings estimates have decreased since our last report primarily due to the lower than expected first quarter earnings that were primarily due to the larger than expected minority interest expense which we believe will return to more historic levels going forward. For fiscal 2006, we estimate UFPT's sales will increase by 14% to \$90.0 million and the Company will report net income of \$4.0 million or \$0.75 per diluted share. We are assuming that the \$95 million contract discussed earlier will be operating at approximately 50% of full rate production in 2005 and 100% thereafter.



Source: UFPT reports and Taglich Brothers' estimates

Risks

Cash concerns

Although we believe that the Company will have adequate resources to fund operations for the next twelve months, future cash flows may be less than we anticipate due to depressed market conditions. If market conditions remain at weak levels, we believe UFP Technologies will need to secure additional financing in order to maintain its current level of operations. As there can be no assurance of the Company's success in obtaining additional capital, shares of UFPT should only be purchased by those who are comfortable taking on above average risk.

Competition

The packaging and specialty foam products industry is highly competitive. The Company's foam and fiber packaging products compete against other alternative products made from materials such as expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles and foam-in-place urethane. UFP Technologies also faces competition in the specialty foam products area from smaller companies that typically concentrate on production for specific industries.

IT spending forecasts

Although recent forecasts support an increase in IT spending for 2005, there can be no assurance that this will actually happen. Should IT spending remain at depressed levels, the operating results of UFP Technologies are likely to be adversely affected.

Liquidity

With only 4.8 million shares outstanding and 3.3 million in the float, liquidity issues must be considered. Average daily volume is approximately 100,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

Miscellaneous risks

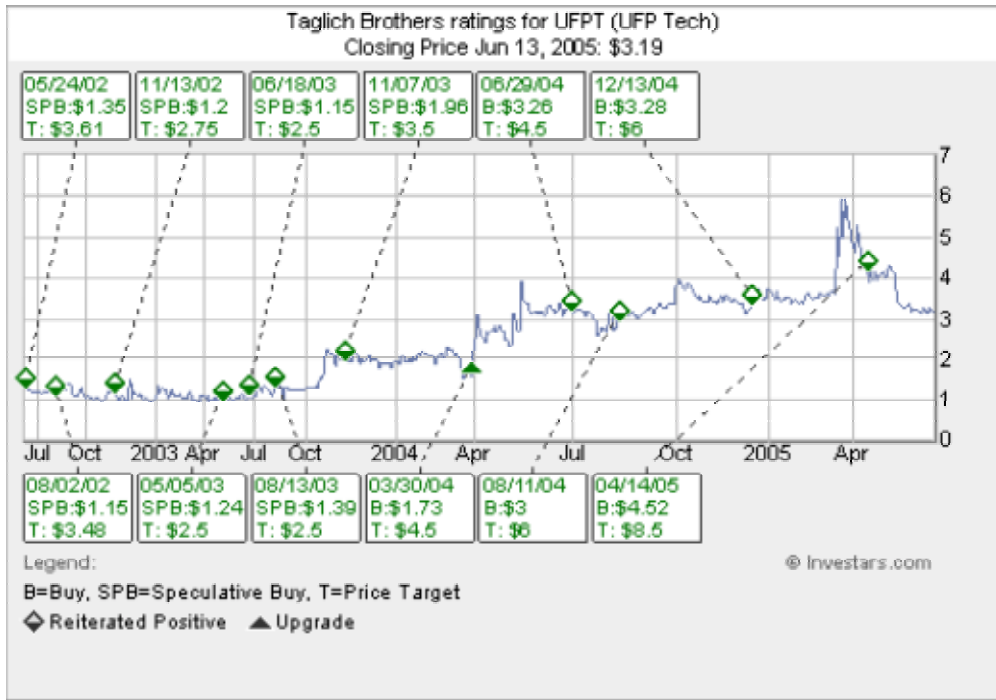
The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Conclusion

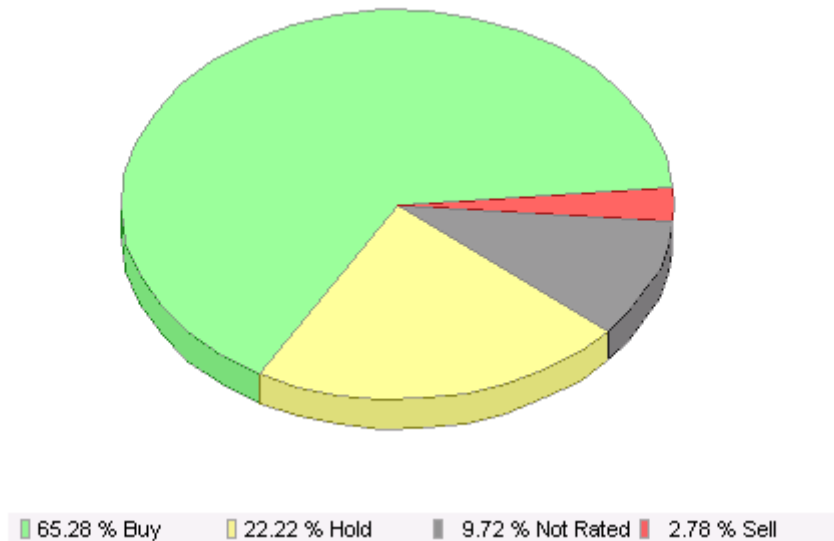
We are reiterating our **Buy** rating for shares of UFP Technologies (UFPT) with a **twelve-month price target of \$8.50**.

Some key investment considerations include:

- UFP Technologies experienced significant phase-in costs in the first quarter of 2005 and the Company expects further costs to be incurred throughout 2005. However, increasing sales volumes from the automotive program are expected over the next couple of years.
- The previously announced \$77 million automotive contract has recently been estimated to be worth \$95 million due to design enhancements and strong growth continues in the military and medical markets.
- Besides the boost to UFPT's components products that should come from the large automotive contract, we believe that sales of UFP Technologies' packaging products should also do well when you take into consideration forecasts for the markets that the Company sells to.
- For fiscal 2005, we estimate UFPT's sales will increase by 15% to \$78.9 million and the Company will report net income of \$2.1 million or \$0.39 per diluted share. For fiscal 2006, we estimate UFPT's sales will increase by 14% to \$90.0 million and the Company will report net income of \$4.0 million or \$0.75 per diluted share.



Taglich Brothers' Current Ratings Distribution



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.

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research. As of the date of this report, Robert Taglich, Managing Director, owns 1,000 shares of UFPT common stock. All research issued by Taglich Brothers, Inc. is based on public information. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years. Since February 2000, the company pays a monthly monetary fee of \$1,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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.

UFP Technologies, Inc.

Consolidated Balance Sheets
(in thousands)

	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 146	\$ 318
Receivables	11,672	11,819
Inventories	5,433	5,236
Prepaid expenses and other	<u>1,774</u>	<u>1,192</u>
Total current assets	19,025	18,565
Net property, plant and equipment	11,463	11,384
Goodwill	6,481	6,481
Other assets	<u>3,135</u>	<u>3,202</u>
Total Assets	<u>\$ 40,104</u>	<u>\$ 39,632</u>
Liabilities & stockholders' equity		
Current liabilities:		
Notes payable	\$ 8,107	\$ 7,924
Current portion of long-term debt	1,195	1,159
Current portion of capital lease obligations	402	401
Accounts payable	4,606	3,666
Accrued restructuring charge	2	36
Accrued taxes and other expenses	<u>3,222</u>	<u>3,948</u>
Total current liabilities	17,534	17,134
Long-term debt	5,557	5,850
Capital lease obligations	1,546	1,647
Minority interest	548	434
Other liabilities	<u>761</u>	<u>781</u>
Total liabilities	25,946	25,846
Total stockholder's equity	<u>14,158</u>	<u>13,786</u>
Total liabilities & stockholder's equity	<u>\$ 40,104</u>	<u>\$ 39,632</u>

UFP Technologies, Inc.

Annual Income Statements for the Years Ended
(in thousands)

	<u>FY(12/02)</u>	<u>FY(12/03)</u>	<u>FY(12/04)</u>	<u>FY(12/05)E</u>	<u>FY(12/06)E</u>
Net sales	\$ 61,189	\$ 60,902	\$ 68,624	\$ 78,942	\$ 90,000
Cost of sales	<u>49,084</u>	<u>50,178</u>	<u>54,653</u>	<u>61,934</u>	<u>69,300</u>
Gross profit	12,105	10,724	13,971	17,008	20,700
<i>Gross Margin</i>	19.78%	17.61%	20.36%	21.54%	23.00%
Restructuring charge	-	1,405	(280)	-	-
SG&A	<u>11,639</u>	<u>10,827</u>	<u>12,106</u>	<u>12,650</u>	<u>13,500</u>
Operating income	466	(1,508)	2,145	4,358	7,200
<i>Operating Margin</i>	0.76%	-2.48%	3.13%	5.52%	8.00%
Interest expense, other income and expenses	<u>(843)</u>	<u>(847)</u>	<u>(786)</u>	<u>(1,036)</u>	<u>(800)</u>
Income before taxes	(377)	(2,355)	1,359	3,322	6,400
Income tax	<u>(143)</u>	<u>(839)</u>	<u>488</u>	<u>1,262</u>	<u>2,432</u>
<i>Tax rate</i>	37.93%	35.63%	35.91%	37.99%	38.00%
Net Income / (Loss)	\$ (234)	\$ (1,516)	\$ 871	\$ 2,060	\$ 3,968
Basic EPS	\$ (0.05)	\$ (0.34)	\$ 0.19	\$ 0.43	\$ 0.83
Diluted EPS	\$ (0.05)	\$ (0.34)	\$ 0.17	\$ 0.39	\$ 0.75
Basic Shares Outstanding	4,343	4,490	4,617	4,783	4,800
Diluted Shares Outstanding	4,343	4,490	4,995	5,289	5,300
<u>Percent of Revenue</u>					
Cost of goods sold	80.22%	82.39%	79.64%	78.46%	77.00%
SG&A	19.02%	17.78%	17.64%	16.02%	15.00%
<u>Year / Year Growth</u>					
Total Revenues	-0.63%	-0.47%	12.68%	15.04%	14.01%
Net Income	NA	NA	157.45%	136.51%	92.62%
EPS	NA	NA	151.65%	123.36%	92.22%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ended 2004
(in thousands)

	<u>Q1(3/04)</u>	<u>Q2(6/04)</u>	<u>Q3(9/04)</u>	<u>Q4(12/04)</u>	<u>FY(12/04)</u>
Net sales	\$ 15,934	\$ 16,827	\$ 17,658	\$ 18,205	\$ 68,624
Cost of sales	<u>12,692</u>	<u>13,166</u>	<u>14,440</u>	<u>14,355</u>	<u>54,653</u>
Gross profit	3,242	3,661	3,218	3,850	13,971
<i>Gross Margin</i>	20.35%	21.76%	18.22%	21.15%	20.36%
Restructuring charge	-	-	(280)	-	(280)
SG&A	<u>2,981</u>	<u>3,118</u>	<u>2,990</u>	<u>3,017</u>	<u>12,106</u>
Operating income	261	543	508	833	2,145
<i>Operating Margin</i>	1.64%	3.23%	2.88%	4.58%	3.13%
Interest expense, other income & expenses	<u>(174)</u>	<u>(198)</u>	<u>(201)</u>	<u>(213)</u>	<u>(786)</u>
Income before taxes	87	345	307	620	1,359
Income tax	<u>33</u>	<u>129</u>	<u>117</u>	<u>209</u>	<u>488</u>
<i>Tax rate</i>	37.93%	37.39%	38.11%	33.71%	35.91%
Net Income / (Loss)	<u>\$ 54</u>	<u>\$ 216</u>	<u>\$ 190</u>	<u>\$ 411</u>	<u>\$ 871</u>
Basic EPS	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.19</u>
Diluted EPS	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.08</u>	<u>\$ 0.17</u>
Basic Shares Outstanding	4,574	5,006	4,627	4,653	4,617
Diluted Shares Outstanding	4,821	5,006	5,049	5,113	4,995
<u>Percent of Revenue</u>					
Cost of goods sold	79.65%	78.24%	81.78%	78.85%	79.64%
SG&A	18.71%	18.53%	16.93%	16.57%	17.64%
<u>Year / Year Growth</u>					
Total Revenues	11.86%	9.60%	9.98%	19.39%	12.68%
Net Income	114.67%	325.00%	-363.41%	-137.53%	157.45%
EPS	114.21%	301.90%	-322.30%	-133.18%	151.65%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2005
(in thousands)

	<u>Q1(3/05)</u>	<u>Q2(6/05)E</u>	<u>Q3(9/05)E</u>	<u>Q4(12/05)E</u>	<u>FY(12/05)E</u>
Net sales	\$ 18,192	\$ 19,250	\$ 20,250	\$ 21,250	\$ 78,942
Cost of sales	<u>14,569</u>	<u>15,208</u>	<u>15,795</u>	<u>16,363</u>	<u>61,934</u>
Gross profit	3,623	4,043	4,455	4,888	17,008
<i>Gross Margin</i>	<i>19.92%</i>	<i>21.00%</i>	<i>22.00%</i>	<i>23.00%</i>	<i>21.54%</i>
SG&A	<u>3,050</u>	<u>3,100</u>	<u>3,200</u>	<u>3,300</u>	<u>12,650</u>
Operating income	573	943	1,255	1,588	4,358
<i>Operating Margin</i>	<i>3.15%</i>	<i>4.90%</i>	<i>6.20%</i>	<i>7.47%</i>	<i>5.52%</i>
Interest expense, other income & expenses	<u>(436)</u>	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(1,036)</u>
Income before taxes	137	743	1,055	1,388	3,322
Income tax	<u>52</u>	<u>282</u>	<u>401</u>	<u>527</u>	<u>1,262</u>
<i>Tax rate</i>	<i>37.96%</i>	<i>38.00%</i>	<i>38.00%</i>	<i>38.00%</i>	<i>38.00%</i>
Net Income / (Loss)	<u>\$ 85</u>	<u>\$ 460</u>	<u>\$ 654</u>	<u>\$ 860</u>	<u>\$ 2,060</u>
Basic EPS	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ 0.14</u>	<u>\$ 0.18</u>	<u>\$ 0.43</u>
Diluted EPS	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.16</u>	<u>\$ 0.39</u>
Basic Shares Outstanding	4,731	4,800	4,800	4,800	4,783
Diluted Shares Outstanding	5,257	5,300	5,300	5,300	5,289
<u>Percent of Revenue</u>					
Cost of goods sold	80.08%	79.00%	78.00%	77.00%	78.46%
SG&A	16.77%	16.10%	15.80%	15.53%	16.02%
<u>Year / Year Growth</u>					
Total Revenues	14.17%	14.40%	14.68%	16.73%	15.04%
Net Income	57.41%	113.13%	244.26%	109.31%	136.48%
EPS	52.18%	122.27%	231.86%	102.90%	128.28%

Statement of Cash Flows for the Three Months Ended
(in thousands)

	March 31, 2005	March 31, 2004
<i>Cash Flows from Operating Activities</i>		
Net income	\$ 85	\$ 54
Depreciation & amortization	623	632
Minority interest	219	16
Equity in income of uncons. affiliate and partnership	-	(13)
Stock issued in lieu of compensation	241	132
Deferred income taxes	52	-
<i>Changes in assets and liabilities</i>		
Receivables	147	(410)
Inventories	(196)	(390)
Prepaid expenses and other	(582)	(48)
Accounts payable	446	345
Accrued restructuring charge, net	(35)	(185)
Accrued expenses and payroll withholdings	(727)	316
Retirement and other liabilities	(20)	-
Other assets	6	-
Net Cash Provided by Operations	259	449
<i>Cash Flows from Investing Activities</i>		
Additions to property, plant and equipment	(694)	(93)
Payments received on affiliated partnership	-	13
Net Cash Used in Investing	(694)	(80)
<i>Cash Flows from Financing Activities</i>		
Borrowings of notes payable	184	(341)
Change in book overdrafts	494	288
Principal repayments of long-term debt	(257)	(258)
Principle repayments of capital lease obligations	(99)	(100)
Distribution to United Development Company partners	(105)	(105)
Proceeds from sale of common stock	46	24
Net cash Provided Financing	263	(492)
Net change in Cash	(172)	(124)
Cash - Beginning of Period	318	310
Cash - End of Period	\$ 146	\$ 186