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 $9.84 — (NASDAQ CM)

	2008A	2009A	2010E	2011E
Revenues (millions)	$110.0	$99.2	$118.2	$124.0
Earnings per share (diluted)	$0.82	$0.94	$1.05	$1.16

52-Week range	$11.59 – $4.04	Fiscal year ends:	December
Shares outstanding as of 4/26/10	6.1 million	Revenue per share (TTM)	$16.59
Approximate float	5.0 million	Price/Sales (TTM)	0.6X
Market capitalization	$60 million	Price/Sales (2011)E	0.6X
Tangible book value/share	$5.65	Price/Earnings (TTM)	8.9X
Price/tangible book	1.7X	Price/Earnings (2011)E	8.5X

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 $14.00 per share (previously $12.50) based on a multiple of 12X earnings applied to our 2011 estimates.

Recent acquisitions and economic growth should drive increasing sales of UFPT's products. Increased capacity utilization should help to expand margins. The company exhibits a strong balance sheet with $2.82 cash per share, a low debt/equity ratio (0.2 versus 6.8 for the industry), and a tangible book value of $5.65 per share.

We have increased our estimates is based on moderate growth over 2009's pro forma numbers. For 2010, we project revenue of $118.2 million and net income of $7.1 million or $1.05 per diluted share. We previously estimated 2010 revenue of $117.0 million and net income of $6.7 million or $1.04 per diluted share.

Keeping in line with the long-term industry growth rate, we project 2011 revenue of $124.0 million and net income of $8.1 million or $1.16 per diluted share. We previously estimated 2011 revenue of $123.0 million and net income of $7.7 million or $1.14 per diluted share.

UFPT reported Q1/10 sales increased 33% to $28.7 million while EPS increased to $0.23 from $0.06. We estimated Q1/10 sales of $27.5 million and EPS of $0.22.

Please view our disclosures starting on page 11.

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and raising our price target to $14.00 per share from $12.50. Recent acquisitions and economic growth should drive increasing sales of UFPT's products.

Although the company's current multiple has declined to 9X earnings from a recent high of 12X earnings and an historic average of 13X, a resumption of revenue growth and a significant increase in cash (we are projecting a cash balance of $28.5 million or almost $4.50 per share for 2011) should help to expand the multiple. Applying a multiple of 12X to our 2011 earnings of $1.16 per share gives us a **price target of approximately $14.00.**

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 January 2010, Datamonitor (a source of global business information) in their "Containers & Packaging: Global Industry Guide," said that the global containers and packaging market remained at a value of $425 billion in 2009. Paper packaging accounted for 40.4% of the global containers and packaging markets volume with the Americas generating 38% of the market's 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. 2009 revenues reported by Sealed Air were $4.2 billion. We could not find any public data related to revenues for FXI-Foamex International and Tegrant.

1st Quarter Financial Results

For the first quarter ended March 31, 2010 versus the same period in 2009:

- Net sales increased 33% to $28.7 million from $21.6 million.
- Gross margins increased to 26.0% from 22.9%.
- SG&A expenses increased to $5.0 million from $4.4 million.
- Net income was $1.5 million or $0.23 per diluted share versus net income of $0.3 million or $0.06 per diluted share.

We projected Q1/10 net sales of $27.5 million and net income of $1.4 million or $0.22 per diluted share.

The increase in sales was primarily due to sales from operations acquired during 2009 of approximately $5.7 million and increased sales of interior trim parts to the automotive industry of approximately $2.2 million.

The increase in gross margin was primarily due to greater manufacturing overhead coverage.

The increase in SG&A was primarily due to $0.8 million of additional costs associated with the 2009 acquisitions (Foamade in March, E.N. Murray in July, and Advanced Materials in August).

Liquidity

The company exhibits a strong balance sheet. Long-term debt is $7.3 million (for a debt/equity ratio of 0.2 versus 6.8 for the industry) and tangible book value is $5.65 per share.

Cash of $2.4 million from operations consisted mainly of cash earnings of $2.6 million and increases in working capital. Capital expenditures of $0.2 million and $0.1 million net cash used in financing activities resulted in a $2.1 million net increase in cash for a balance of $17.1 million as of March 31, 2010.

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 March 31, 2010, the company had approximately $14.5 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.

Excluding the effect that acquisitions had on first quarter results ($5.7 million additional revenue from acquisitions), revenues grew at a 6.5% rate.

The company has successfully integrated the acquisitions of 2009 and we believe there is room for growth with an improving economy. The International Monetary Fund's latest outlook for the US economy points to moderately improving economic conditions in 2010 and 2011.

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 have averaged 16.8% of sales in the two quarters following the acquisitions of E.N. Murray and Advanced Materials.

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.

2010 Forecast

Factoring in the economic forecast, industry forecasts, recent results, and acquisitions, we estimate 2010 revenue of $118.2 million and net income of $7.1 million or $1.05 per diluted share. We previously estimated revenue of $117.0 million and net income of $6.7 million or $1.04 per diluted share. The increase in our estimates is based on moderate growth over 2009's pro forma numbers.

Gross margins have averaged 26.5% since all acquisitions have been completed (excluding the anomalous Q4/09). We project gross margins of 26.8% in 2010 due to increased capacity utilization. SG&A expenses should increase due to the increased level of sales. However, as a percent of sales, SG&A expenses should decrease to 16.9% 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 $11.7 million and increases in working capital of $2.1 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 $5.5 million for a year end cash balance of $20.5 million.

2011 Forecast

Keeping in line with the long-term industry growth rate of approximately 5%, we estimate 2011 revenue of $124.0 million and net income of $8.1 million or $1.16 per share. We previously estimated revenue of $123.0 million and net income of $7.7 million or $1.14 per diluted share.

The increase in sales should result in gross margins of 27.6% due to increased manufacturing utilization. SG&A expenses should also increase with the higher level of sales. We are maintaining a tax rate of 37%.

In 2011, we project $12.1 million cash from operations driven by cash earnings of $12.7 million and increases in working capital of $0.6 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 $8.0 million for a year end cash balance of $28.5 million.

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 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 5.0 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.

UFP Technologies, Inc.

Balance Sheet for the Periods Ended
(in thousands $)

	2007A	2008A	2009A	3/10A	2010E	2011E
Assets						
Current assets:						
Cash and cash equivalents	9,060	6,729	14,999	17,136	20,498	28,499
Receivables	11,796	12,755	14,218	13,216	16,936	17,767
Inventories	5,877	8,153	7,647	7,498	9,128	9,470
Prepaid expenses	821	516	476	919	500	500
Deferred income taxes	1,021	1,489	1,411	1,408	1,400	1,400
Total current assets	28,575	29,642	38,751	40,177	48,462	57,636
Net property, plant and equipment	9,492	11,754	12,218	11,671	11,200	10,200
Deferred income taxes	189	-	-	-	-	-
Goodwill	6,481	6,481	6,481	6,481	6,481	6,481
Other assets	816	846	2,002	2,090	2,000	2,000
Total assets	**45,553**	**48,723**	**59,452**	**60,419**	**68,143**	**76,317**
Liabilities & stockholders' equity						
Current liabilities:						
Current portion of long-term debt	714	717	623	624	600	600
Current portion of capital lease obligations	705	703	-	-	-	-
Accounts payable	5,694	3,304	4,274	4,864	5,102	5,293
Accrued taxes and other expenses	6,510	6,230	6,153	4,679	7,329	7,689
Total current liabilities	13,623	10,954	11,050	10,167	13,031	13,582
Long-term debt	4,658	3,942	7,502	7,346	6,500	5,500
Capital lease obligations	1,613	910	-	-	-	-
Minority interest	584	523	-	-	-	-
Deferred income taxes	-	113	777	757	1,000	1,150
Other liabilities	832	914	1,118	1,288	1,200	1,200
Total liabilities	**21,310**	**17,356**	**20,447**	**19,558**	**21,731**	**21,432**
Total stockholders' equity	**24,243**	**31,367**	**39,005**	**40,861**	**46,412**	**54,885**
Total liabilities & stockholders' equity	**45,553**	**48,723**	**59,452**	**60,419**	**68,143**	**76,317**

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	118,200	124,000
Cost of sales	70,785	81,469	72,512	86,558	89,803
Gross profit	22,810	28,563	26,719	31,642	34,197
Restructuring charge	-	1,315	-	-	-
SG&A	15,563	18,823	18,539	20,012	21,000
Operating income	7,247	8,425	8,180	11,630	13,197
Interest exp, other inc and exp	(504)	(314)	618	(215)	(200)
Income before taxes	6,743	8,111	8,798	11,415	12,997
Income tax	2,584	2,995	2,817	4,220	4,809
Tax rate	*38.32%*	*36.93%*	*32.02%*	*36.97%*	*37.00%*
Income attrib. to noncontrol. interests		-	(52)	(56)	(60)
Net Income / (Loss)	4,159	5,116	5,929	7,139	8,128
Basic EPS	0.78	0.92	1.02	1.17	1.28
Diluted EPS	0.71	0.82	0.94	1.05	1.16
Basic Shares Outstanding	5,307	5,550	5,829	6,119	6,350
Diluted Shares Outstanding	5,861	6,263	6,294	6,806	7,000
Margin Analysis					
Gross margin	24.4%	26.0%	26.9%	26.8%	27.6%
SG&A	16.6%	17.1%	18.7%	16.9%	16.9%
Operating margin	7.7%	7.7%	8.2%	9.8%	10.6%
Year / Year Growth					
Total Revenues	-0.2%	17.6%	-9.8%	19.1%	4.9%
Net Income	65.4%	23.0%	15.9%	20.4%	13.9%
EPS	57.2%	15.1%	15.3%	11.4%	10.7%

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	3/10A	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	28,700	29,750	28,750	31,000	118,200	29,100	31,600	30,400	32,900	124,000
Cost of sales	16,665	15,588	20,166	20,093	72,512	21,243	21,658	21,275	22,382	86,558	21,389	22,752	22,040	23,622	89,803
Gross profit	4,943	5,371	7,454	8,951	26,719	7,457	8,092	7,475	8,618	31,642	7,712	8,848	8,360	9,278	34,197
Restructuring charge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SG&A	4,390	4,416	5,071	4,662	18,539	5,012	5,000	5,000	5,000	20,012	5,250	5,250	5,250	5,250	21,000
Operating income	553	955	2,383	4,289	8,180	2,445	3,092	2,475	3,618	11,630	2,462	3,598	3,110	4,028	13,197
Interest exp, other inc and exp	2	(54)	716	(46)	618	(35)	(60)	(60)	(60)	(215)	(50)	(50)	(50)	(50)	(200)
Income before taxes	555	901	3,099	4,243	8,798	2,410	3,032	2,415	3,558	11,415	2,412	3,548	3,060	3,978	12,997
Income tax	194	319	977	1,327	2,817	888	1,122	894	1,316	4,220	892	1,313	1,132	1,472	4,809
Tax rate	*34.95%*	*35.41%*	*31.53%*	*31.28%*	*32.02%*	*36.85%*	*37.00%*	*37.00%*	*37.00%*	*36.97%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*
Income attrib. to noncontrol. Interests	(16)	(16)	(10)	(10)	(52)	(11)	(15)	(15)	(15)	(56)	(15)	(15)	(15)	(15)	(60)
Net Income / (Loss)	345	566	2,112	2,906	5,929	1,511	1,895	1,506	2,227	7,139	1,504	2,220	1,913	2,491	8,128
Basic EPS	0.06	0.10	0.36	0.49	1.02	0.25	0.31	0.24	0.36	1.17	0.24	0.35	0.30	0.38	1.28
Diluted EPS	0.06	0.09	0.34	0.45	0.94	0.23	0.28	0.22	0.32	1.05	0.22	0.32	0.27	0.35	1.16
Basic Shares Outstanding	5,713	5,767	5,894	5,920	5,829	5,997	6,140	6,160	6,180	6,119	6,200	6,300	6,400	6,500	6,350
Diluted Shares Outstanding	6,153	6,191	6,301	6,497	6,294	6,642	6,790	6,860	6,930	6,806	6,850	6,950	7,050	7,150	7,000
Margin Analysis															
Gross margin	22.9%	25.6%	27.0%	30.8%	26.9%	26.0%	27.2%	26.0%	27.8%	26.8%	26.5%	28.0%	27.5%	28.2%	27.6%
SG&A	20.3%	21.1%	18.4%	16.1%	18.7%	17.5%	16.8%	17.4%	16.1%	16.9%	18.0%	16.6%	17.3%	16.0%	16.9%
Operating margin	2.6%	4.6%	8.6%	14.8%	8.2%	8.5%	10.4%	8.6%	11.7%	9.8%	8.5%	11.4%	10.2%	12.2%	10.6%
Year / Year Growth															
Total Revenues	-22.9%	-26.3%	0.4%	11.4%	-9.8%	32.8%	41.9%	4.1%	6.7%	19.1%	1.4%	6.2%	5.7%	6.1%	4.9%
Net Income	-69.9%	-64.0%	69.4%	153.6%	15.9%	338.0%	234.8%	-28.7%	-23.4%	20.4%	-0.4%	17.2%	27.0%	11.9%	13.9%
EPS	-70.3%	-62.9%	69.7%	138.6%	15.3%	305.7%	205.3%	-34.5%	-28.2%	11.4%	-3.5%	14.5%	23.6%	8.4%	10.7%

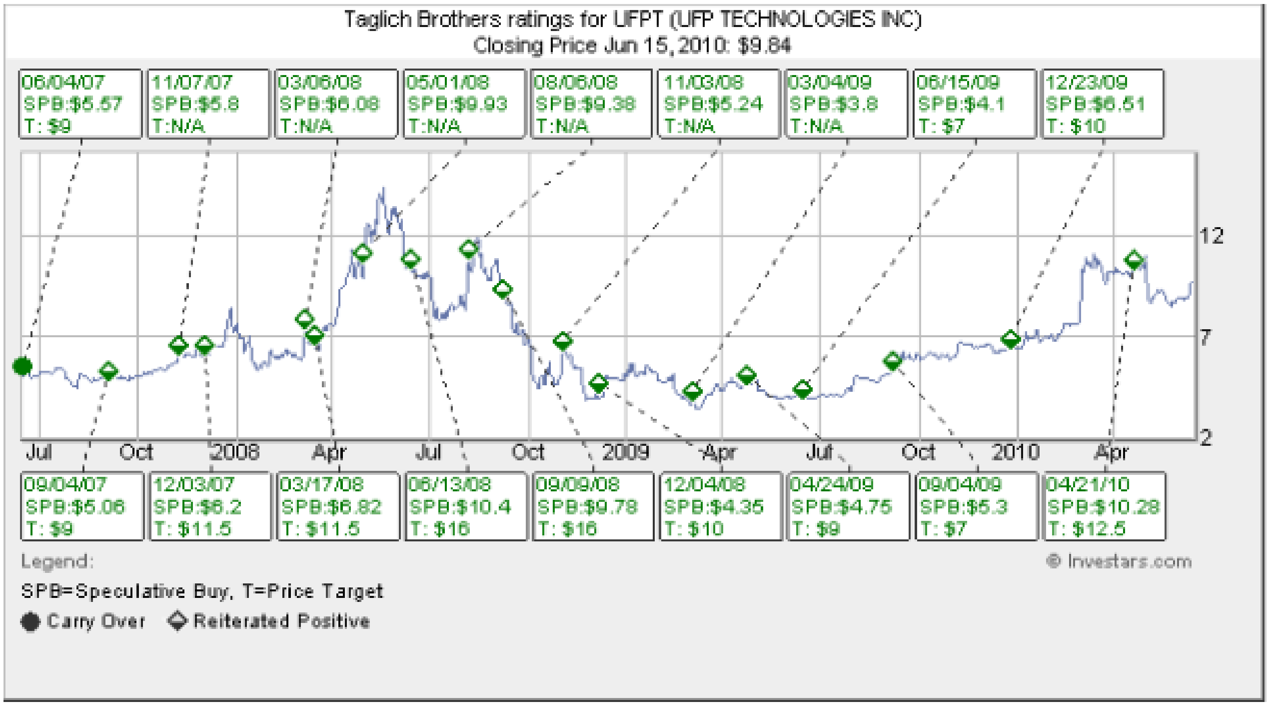
Source: Company filings and Taglich Brothers' estimates

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

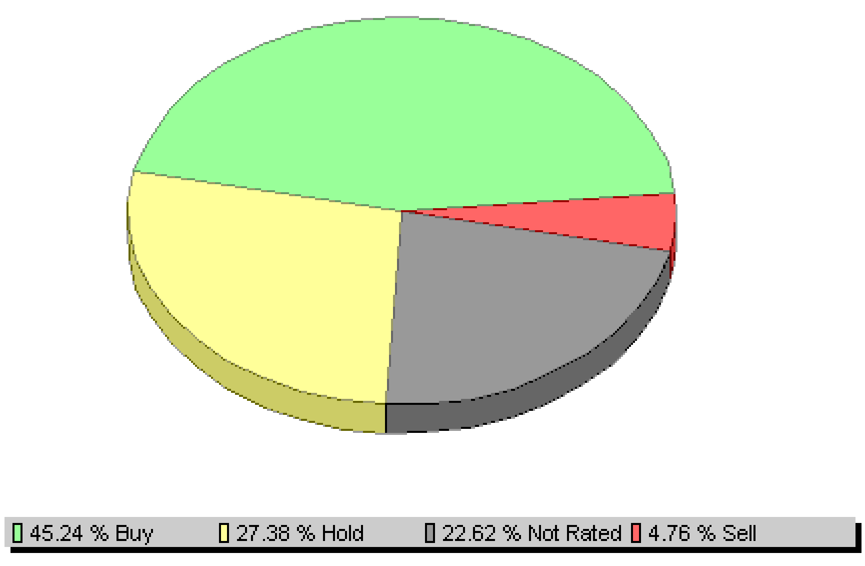
	2007A	2008A	2009A	3mos2010A	2010E	2011E
Cash Flows from Operating Activities						
Net income	4,159	5,116	5,982	1,511	7,139	8,128
Depreciation & amortization	2,815	2,977	2,895	812	3,200	3,200
Restructuring leasehold improvement write-off	-	170	-	-	-	-
Equity in net income of unconsolidated affiliate	(15)	(7)	-	-	-	-
Minority interest	72	44	-	11	-	-
Gain on acquisition	-	-	(840)	-	-	-
(Gain) loss on disposal of property, plant and equipment	(33)	(57)	(11)	-	-	-
Share-based compensation	692	1,306	901	195	900	900
Stock issued in lieu of compensation	256	344	184	79	200	200
Deferred income taxes	1,210	16	227	(18)	300	300
Changes in assets and liabilities						
Receivables	(167)	777	(342)	1,002	(2,718)	(831)
Inventories	53	(435)	1,863	150	(1,481)	(342)
Prepaid expenses	(55)	350	73	(443)	(24)	-
Accounts payable	1,074	(2,777)	393	591	828	191
Accrued expenses and other	760	(937)	(331)	(1,474)	1,176	360
Retirement and other liabilites	95	(119)	204	170	82	-
Other assets	(213)	(83)	(509)	(147)	2	-
Net Cash Provided by Operations	**10,703**	**6,685**	**10,689**	**2,439**	**9,604**	**12,106**
Cash Flows from Investing Activities						
Additions to property, plant and equipment	(2,101)	(2,763)	(1,857)	(206)	(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)**	**(206)**	**(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)	(105)
Tax benefit from exercise of non-qualified stock options	215	211	23	326	-	-
Net proceeds from sale of common stock	24	20	-	-	-	-
Proceeds from exercise of stock options	272	333	130	142	200	200
Payment of statutory witholdings for stock options exercised	-		-	(304)	-	-
Principal repayments of long-term debt	(1,095)	(714)	(577)	(155)	(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**	**(96)**	**(905)**	**(905)**
Net Change in Cash	**8,043**	**(2,331)**	**8,269**	**2,137**	**5,499**	**8,001**
Cash - Beginning of Period	**1,017**	**9,060**	**6,729**	**14,999**	**14,999**	**20,498**
Cash - End of Period	**9,060**	**6,729**	**14,999**	**17,136**	**20,498**	**28,499**
Cash Flow from Operations	10,703	6,685	10,689	2,439	9,604	12,106
Capital Expenditures	(2,101)	(2,763)	(1,857)	(206)	(2,200)	(2,200)
Free Cash Flow	8,602	3,922	8,832	2,233	7,404	9,906

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	3.85%
Hold	0	0.00%
Sell	1	100.00%
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.