

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

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 \$3.00 — (NASDAQ SC)

August 11, 2004

	FY (2002)	FY (2003)*	FY (2004)E	FY (2005)E
Revenues (millions)	\$61.2	\$60.9	\$67.3	\$78.0
Earnings per share (diluted)	\$(0.05)	\$(0.34)	\$0.18	\$0.63

52week range	\$1.10 – \$4.05	Fiscal year ends:	December
Shares outstanding (millions)	5.0	Revenue per share (TTM)	\$14.29
Trading float (millions)	2.4	Price/Sales (TTM)	0.2X
Insider + 5% ownership	57%	Price/Sales (2005)E	0.2X
Book value/share	\$2.62	Price/Earnings (TTM)	NA
Price/tangible book	1.1X	Price/Earnings (2005)E	4.8X

*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) and setting a twelve-month price target of \$6.00 per share. Our price target has increased since our last report primarily due to applying a higher earnings multiple (still at a conservative 50%+ discount to the industry) on increased estimates.

For the second quarter ended June 30, 2004, versus the same period in 2003, net sales increased 10% to \$16.8 million from \$15.4 million. Net income was \$0.2 million or \$0.04 per diluted share in the second quarter of 2004 versus a net loss of \$0.1 million or \$(0.02) per share in the same period in 2003.

We continue to believe that an investment in shares of UFPT represents good value at the current price when you consider the recent trend in earnings, the incremental revenue that the \$77 million contract should result in, and the forecasts for the markets that the Company sells to. We also believe that the Company's recent consolidation efforts should result in significant bottom-line increases with moderate increases in revenue.

For fiscal 2004, we estimate UFPT's sales will increase by 10% to \$67.3 million and the Company will report net income of \$0.9 million or \$0.18 per diluted share. For fiscal 2005, we estimate UFPT's sales will increase by 16% to \$78.0 million and the Company will report net income of \$3.1 million or \$0.63 per diluted share.

**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 second quarter ended June 30, 2004, versus the same period in 2003:

- Net sales increased 10% to \$16.8 million from \$15.4 million.
- Gross margins increased to 21.8% from 17.8%.
- SG&A expenses increased to \$3.1 million from \$2.6 million.
- Net income was \$0.2 million or \$0.04 per diluted share versus a net loss of \$0.1 million or \$(0.02) per share.

In comparison, Taglich Brothers' estimates called for second quarter net sales of \$16.3 million and net income of \$0.1 million or \$0.03 per diluted share.

The Company attributed the increase in net sales to across-the-board increases and cited new marketing initiatives, new sales hires, and a strengthening economy as drivers. Further, Management said the increase in sales combined with the Company's reduced cost structure, are producing significant bottom line improvements. The Company continues to invest in the new \$77 million automotive program which is scheduled to launch at the end of this year.

Balance Sheet as of June 30, 2004

We estimate cash and cash equivalents were approximately \$0.2 million. The Company has working capital of \$1.8 million, a book value of \$2.62 per share and a long-term debt-to-equity ratio of 0.6X. We estimate that cash provided by operations in the second quarter of fiscal 2004 was approximately \$0.8 million. UFPT has an available balance under its line of credit of approximately \$3.0 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

The Company's results were above our expectations and Management said that the Company is positioned for continued growth in 2005 and beyond. We also believe that UFPT should experience continued growth in 2005 and beyond when you consider the current trend in sales and earnings, combined with a strengthening economy and the Company's reduced cost structure. Also, the \$77 million automotive contract should start to show further improvements in operating results later this year.

The eight-year \$77 million contract calls for UFPT to provide molded door panels to a large Tier-1 automotive supplier with manufacturing expected to begin in the fourth quarter of 2004 and full rate production estimated for 2006. **We believe this should provide a significant boost to UFPT's components products sales in fiscal 2005 and beyond.**

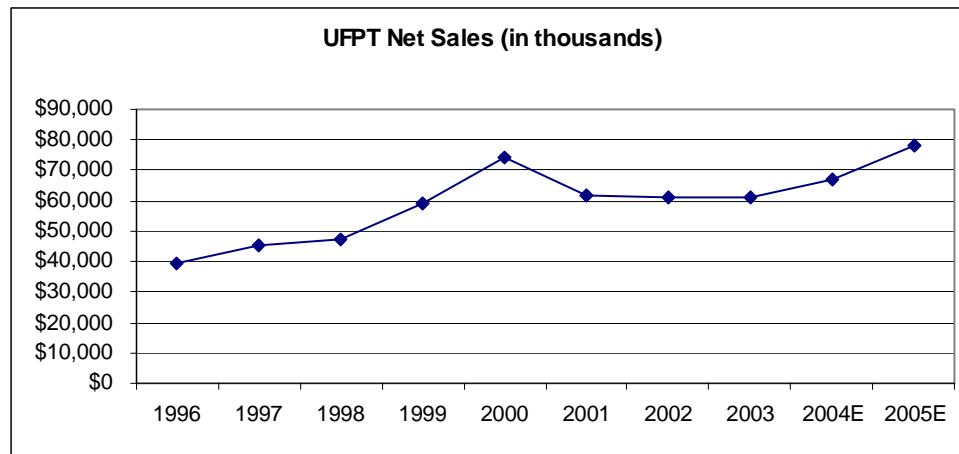
The Company has been preparing for this program for almost two years and has incurred significant operating expenses in 2003. UFP Technologies anticipates the increase in operating expenses associated with the automotive program will continue for the first three quarters of fiscal 2004. The Company originally committed to acquire certain equipment for a total of approximately \$3.4 million of which approximately \$1.7 million has already been incurred as of March 31, 2004.

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. CSM's figures represent the combined market value for the following interior components: door trim panels, floor carpeting, floor consoles, headliners, instrument panels and package trays. Don Montroy, CSM market analyst, North American Component Forecasts, said "there is a big push in North America to have interior trim materials, sound quality, and overall fit and finish equaling that of European and Japanese luxury models."

We believe that sales of UFP Technologies' packaging products should also do well in 2004 and 2005 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 global IT researchers Gartner, Inc., U.S. enterprises increased IT spending earlier this year and IT spending is on track for a 10% gain in 2004. **An increase in IT spending is what we believe will drive demand for UFPT's packaging products going forward.**

We believe the above information suggests that UFP Technology's sales should increase modestly in 2004 and show stronger growth in 2005.

For fiscal 2004, we estimate UFPT's sales will increase by 10% to \$67.3 million and the Company will report net income of \$0.9 million or \$0.18 per diluted share. For fiscal 2005, we estimate UFPT's sales will increase by 16% to \$78.0 million and the Company will report net income of \$3.1 million or \$0.63 per diluted share. Our estimates have increased since our last report primarily due to the recent strong operating results and are made with the assumption that the \$77 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 2004 and 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 5.0 million shares outstanding and 2.4 million in the float, liquidity issues must be considered. Average daily volume is approximately 20,000 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.

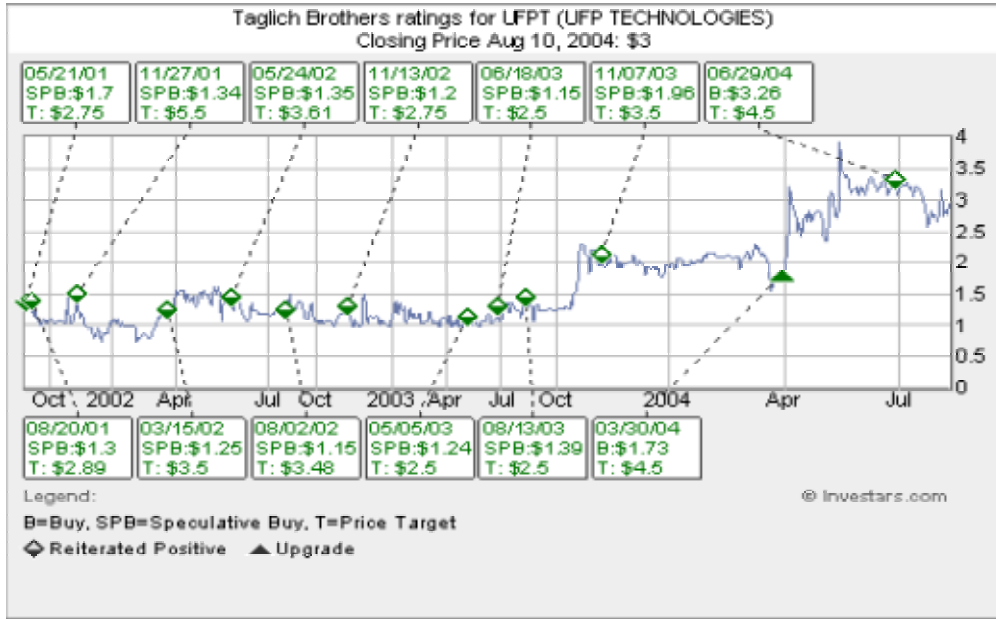
Conclusion and Valuation

We are reiterating our **Buy** rating for shares of UFP Technologies (UFPT).

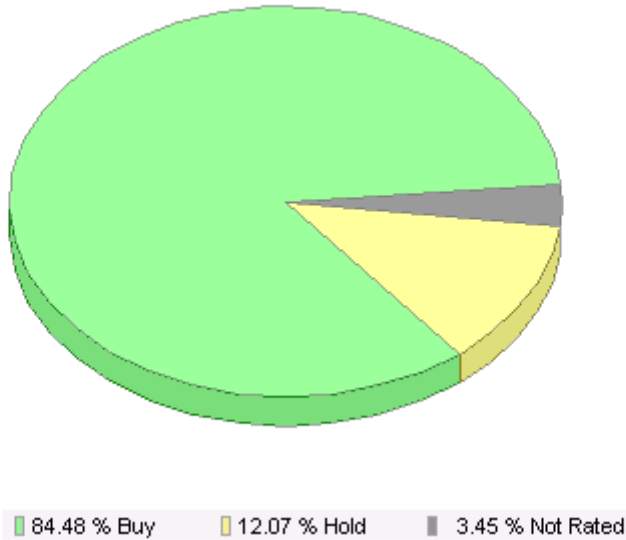
We continue to believe that an investment in shares of UFPT represents good value at the current price when you consider the recent trend in earnings, the incremental revenue that the \$77 million contract should result in, and the forecasts for the markets that the Company sells to. We also believe that the Company's recent consolidation efforts should result in significant bottom-line increases with moderate increases in revenue.

For fiscal 2004, we estimate UFPT's sales will increase by 10% to \$67.3 million and the Company will report net income of \$0.9 million or \$0.18 per diluted share. For fiscal 2005, we estimate UFPT's sales will increase by 16% to \$78.0 million and the Company will report net income of \$3.1 million or \$0.63 per diluted share.

UFPT continues to trade at a large discount to the industry (containers and packaging) averages. The TTM price to sales multiple for shares of UFPT is currently 0.2X vs. 1.0X for the industry. UFPT's price to book multiple is currently 1.1X vs. 4.0X for the industry. We believe that a continual improvement of the Company's operating results should help to firm UFPT's multiples in regard to the industry. The industry is currently trading at approximately 23X TTM earnings. As a conservative valuation, we are applying a price to earnings multiple of approximately 10X for shares of UFPT to take into account the risks associated with investing in microcap stocks. Applying a multiple of 10X to our forecasted earnings of \$0.63 per share in fiscal 2005 gives us a **twelve-month price target of approximately \$6.00 per 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, Michael Taglich owns 5,000 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 with in 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>June 30, 2004</u>	<u>December 31, 2003</u>
Assets		
Current assets	\$ 17,614	\$ 15,835
Net property, plant and equipment	10,632	11,473
Other assets	<u>9,424</u>	<u>9,441</u>
Total Assets	<u>\$ 37,670</u>	<u>\$ 36,749</u>
Liabilities & stockholders' equity		
Current liabilities	\$ 15,767	\$ 14,626
Long-term debt	7,543	8,119
Other liabilities	<u>1,245</u>	<u>1,313</u>
Total liabilities	<u>24,555</u>	<u>24,058</u>
Total stockholder's equity	<u>13,115</u>	<u>12,691</u>
Total liabilities & stockholder's equity	<u>\$ 37,670</u>	<u>\$ 36,749</u>

UFP Technologies, Inc.

Annual Income Statements for the Years Ended
(in thousands)

	<u>FY(12/01)</u>	<u>FY(12/02)</u>	<u>FY(12/03)</u>	<u>FY(12/04)E</u>	<u>FY(12/05)E</u>
Net sales	\$ 61,574	\$ 61,189	\$ 60,902	\$ 67,261	\$ 78,000
Cost of sales	<u>50,649</u>	<u>49,084</u>	<u>50,178</u>	<u>52,802</u>	<u>59,280</u>
Gross profit	10,925	12,105	10,724	14,459	18,720
<i>Gross Margin</i>	17.74%	19.78%	17.61%	21.50%	24.00%
Restructuring charge	1,016	-	1,405	-	-
SG&A	<u>13,649</u>	<u>11,639</u>	<u>10,827</u>	<u>12,299</u>	<u>13,000</u>
Operating income	(3,740)	466	(1,508)	2,160	5,720
<i>Operating Margin</i>	-6.07%	0.76%	-2.48%	3.21%	7.33%
Interest expense, other income and expenses	<u>(1,014)</u>	<u>(843)</u>	<u>(847)</u>	<u>(772)</u>	<u>(800)</u>
Income before taxes	(4,754)	(377)	(2,355)	1,388	4,920
Income tax	<u>(1,711)</u>	<u>(143)</u>	<u>(839)</u>	<u>506</u>	<u>1,771</u>
<i>Tax rate</i>	35.99%	37.93%	35.63%	36.46%	36.00%
Net Income / (Loss)	<u>\$ (3,043)</u>	<u>\$ (234)</u>	<u>\$ (1,516)</u>	<u>\$ 882</u>	<u>\$ 3,149</u>
Basic EPS	<u>\$ (0.72)</u>	<u>\$ (0.05)</u>	<u>\$ (0.34)</u>	<u>\$ 0.18</u>	<u>\$ 0.63</u>
Diluted EPS	<u>\$ (0.72)</u>	<u>\$ (0.05)</u>	<u>\$ (0.34)</u>	<u>\$ 0.18</u>	<u>\$ 0.63</u>
Basic Shares Outstanding	4,248	4,343	4,490	4,898	5,006
Diluted Shares Outstanding	4,248	4,343	4,490	4,960	5,006
<u>Percent of Revenue</u>					
Cost of goods sold	82.26%	80.22%	82.39%	78.50%	76.00%
SG&A	22.17%	19.02%	17.78%	18.29%	16.67%
<u>Year / Year Growth</u>					
Total Revenues	-17.34%	-0.63%	-0.47%	10.44%	15.97%
Net Income	NA	NA	NA	158.18%	257.03%
EPS	NA	NA	NA	152.67%	253.75%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2003
(in thousands)

	<u>Q1(3/03)</u>	<u>Q2(6/03)</u>	<u>Q3(9/03)</u>	<u>Q4(12/03)</u>	<u>FY(12/03)</u>
Net sales	\$ 14,245	\$ 15,353	\$ 16,056	\$ 15,248	\$ 60,902
Cost of sales	<u>11,985</u>	<u>12,614</u>	<u>12,904</u>	<u>12,676</u>	<u>50,178</u>
Gross profit	2,260	2,739	3,152	2,572	10,724
<i>Gross Margin</i>	15.87%	17.84%	19.63%	16.87%	17.61%
Restructuring charge	-	-	-	1,405	1,405
SG&A	<u>2,686</u>	<u>2,640</u>	<u>2,906</u>	<u>2,595</u>	<u>10,827</u>
Operating income	(426)	99	246	(1,428)	(1,508)
<i>Operating Margin</i>	-2.99%	0.64%	1.53%	-9.37%	-2.48%
Interest expense, other income & expenses	<u>(168)</u>	<u>(208)</u>	<u>(184)</u>	<u>(288)</u>	<u>(847)</u>
Income before taxes	(594)	(109)	62	(1,716)	(2,355)
Income tax	<u>(226)</u>	<u>(13)</u>	<u>21</u>	<u>(621)</u>	<u>(839)</u>
<i>Tax rate</i>	38.05%	11.93%	33.87%	36.19%	35.63%
Net Income / (Loss)	<u>\$ (368)</u>	<u>\$ (96)</u>	<u>\$ 41</u>	<u>\$ (1,095)</u>	<u>\$ (1,516)</u>
Basic EPS	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ (0.24)</u>	<u>\$ (0.34)</u>
Diluted EPS	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ (0.24)</u>	<u>\$ (0.34)</u>
Basic Shares Outstanding	4,429	4,492	4,601	4,520	4,490
Diluted Shares Outstanding	4,429	4,492	4,601	4,520	4,490
<u>Percent of Revenue</u>					
Cost of goods sold	84.13%	82.16%	80.37%	83.13%	82.39%
SG&A	18.86%	17.20%	18.10%	17.02%	17.78%
<u>Year / Year Growth</u>					
Total Revenues	-8.28%	-7.78%	5.06%	11.08%	-0.47%
Net Income	NA	NA	NA	NMF	NA
EPS	NA	NA	NA	NMF	NA

UFP Technologies, Inc.

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

	<u>Q1(3/04)</u>	<u>Q2(6/04)</u>	<u>Q3(9/04)E</u>	<u>Q4(12/04)E</u>	<u>FY(12/04)E</u>
Net sales	\$ 15,934	\$ 16,827	\$ 17,000	\$ 17,500	\$ 67,261
Cost of sales	<u>12,692</u>	<u>13,166</u>	<u>13,294</u>	<u>13,650</u>	<u>52,802</u>
Gross profit	3,242	3,661	3,706	3,850	14,459
<i>Gross Margin</i>	20.35%	21.76%	21.80%	22.00%	21.50%
SG&A	<u>2,981</u>	<u>3,118</u>	<u>3,100</u>	<u>3,100</u>	<u>12,299</u>
Operating income	261	543	606	750	2,160
<i>Operating Margin</i>	1.64%	3.23%	3.56%	4.29%	3.21%
Interest expense, other income & expenses	<u>(174)</u>	<u>(198)</u>	<u>(200)</u>	<u>(200)</u>	<u>(772)</u>
Income before taxes	87	345	406	550	1,388
Income tax	<u>33</u>	<u>129</u>	<u>146</u>	<u>198</u>	<u>506</u>
<i>Tax rate</i>	37.93%	37.39%	36.00%	36.00%	36.47%
Net Income / (Loss)	<u>\$ 54</u>	<u>\$ 216</u>	<u>\$ 260</u>	<u>\$ 352</u>	<u>\$ 882</u>
Basic EPS	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.18</u>
Diluted EPS	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.18</u>
Basic Shares Outstanding	4,574	5,006	5,006	5,006	4,898
Diluted Shares Outstanding	4,821	5,006	5,006	5,006	4,960
<u>Percent of Revenue</u>					
Cost of goods sold	79.65%	78.24%	78.20%	78.00%	78.50%
SG&A	18.71%	18.53%	18.24%	17.71%	18.29%
<u>Year / Year Growth</u>					
Total Revenues	11.86%	9.60%	5.88%	14.77%	10.44%
Net Income	114.67%	325.00%	-533.76%	-132.15%	158.17%
EPS	114.21%	301.90%	-482.48%	-129.03%	152.66%