Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

UFP Technologies, Inc.

Rating: Speculative Buy

John Nobile
September 12, 2013

UFPT $21.67 — (NASDAQ CM)

	2011A	2012A	2013E	2014E
Revenues (millions)	$127.2	$131.0	$140.0	$150.0
Earnings per share (diluted)	$1.48	$1.55	$1.50	$1.71

52-Week range	$22.25 – $15.27	Fiscal year ends:	December
Shares outstanding as of 8/2/13	6.8 million	Revenue per share (TTM)	$19.98
Approximate float	5.1 million	Price/Sales (TTM)	1.1X
Market capitalization	$147 million	Price/Sales (2014)E	1.0X
Tangible book value/share	$10.22	Price/Earnings (TTM)	14.1X
Price/tangible book	2.1X	Price/Earnings (2014)E	12.7X

UFP Technologies designs and manufactures high performance cushion packaging and molded fiber products and specialty foam and plastic products. These products are used as protection for fragile and valuable items, and are sold primarily to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets. (www.ufpt.com)

Key investment considerations:

Reiterating Speculative Buy rating on UFP Technologies and increasing twelve-month price target to $23.00 from $21.00 based on a current trailing PE of 14X applied to our 2014 earnings projection.

An aging population, increasing automotive demand, and innovation in new electronic products should drive growth over the next five years in UFPT's principal end markets.

The recent acquisition of Packaging Alternatives Corporation should be accretive to 2013 revenue by approximately $10.8 million, boosting revenue growth to 7%.

2Q13 results were adversely affected by a $1.4 million decline in military sales. We expect continued weakness in military sales in 3Q13. However, with military spending cuts scheduled to end at the end of 3Q13, military sales should improve starting in 4Q13.

We project 2013 revenue of $140 million and EPS of $1.50, down from our previous projection of $143.1 million revenue and EPS of $1.60. For 2014, we project revenue of $150 million and EPS of $1.71, down from our previous projection of $153.2 million revenue and EPS of $1.78. Our reduced projections are primarily due to a greater adverse effect on military sales than previously anticipated.

2Q13 revenue (10-Q released 8/8/13) increased 6% to $35.8 million and EPS increased to $0.42 from $0.39 in the year-earlier period. We estimated 2Q13 revenue of 36.5 million and EPS of $0.44.

Please view our disclosures on pages 13 - 15.

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and increasing our **twelve-month price target to $23.00** from $21.00.

UFPT is currently trading at a multiple of 14X earnings while its direct competitors are trading at an average multiple of 23X earnings. We believe the disparity is largely due to UFPT's relatively small float and trading volume. The stocks of its primary competitors show market values of $2.5 billion to $5.8 billion. Applying the current forward PE multiple of 14X to our 2014 earnings estimate of $1.71 per share discounted to a twelve-month value of $1.64 per share gives us a price target of approximately $23.00.

New VP of Operations

On August 27, 2013, UFP Technologies announced it named David Smith Vice President of Operations.

Prior to UFP Technologies, spent nearly 25 years at Rogers Corporation in various positions. Most recently was Vice President & General Manager of Rogers Corporation's high-performance foam division, which services the medical, automotive, consumer, electronics, and industrial markets from factories in the United States, China, and Korea. BS in Physics from Muhlenberg College and MS in Manufacturing Systems Engineering from Lehigh University.

Business

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures engineered packaging utilizing molded fiber, vacuum-formed plastics, and molded and fabricated foam plastic products. The company also designs and manufactures engineered component products using laminating, molding, and fabricating technologies. 95% of UFPT's sales are to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the United States.

Components products accounted for 67% of sales in 2012 while packaging products comprised 33%. We believe that approximately 35% of total sales are to the medical device industry for applications such as compression-molded foam finger splints, orthopedic foam components, and dental fluoride trays. UFPT's other end markets (automotive, defense, electronics, and industrial) each account for an estimated 10% to 20% of the company's revenue.

The company's high-performance cushion packaging products provide protection for fragile and valuable items, and are sold primarily to original equipment and component manufacturers. Molded fiber products are used for packaging high volume consumer goods, including computer components, medical devices, other light electronics, candles, and health and beauty products.

UFPT's component products include automotive interior trim, athletic padding, industrial safety belts, components for medical equipment and devices, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

The company differentiates itself through the design and production of customized foam case inserts (pictured at right). Through a combination of materials, technology, and engineering, the company is able to produce unique case inserts for surgical instruments, customized repair kits, electronic parts, emergency response equipment, and many other applications.

Industry Outlook

In January 2013, IBISWorld forecasted the urethane foam products industry to grow at an average annual rate of 3.4% to $10.4 billion over the five years to 2018. However, UFP Technologies' revenue should grow at a higher rate given end market growth driven by an aging population, increasing automotive demand, and innovative new electronics products.

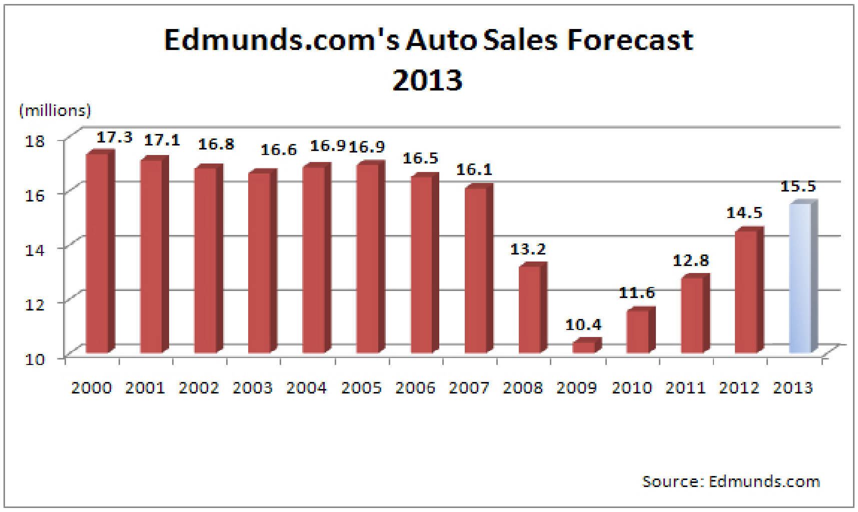
The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors that should influence the medical device industry over the next five years. Incidences of disease and disorders increase with age. For example, people aged 65 and older account for 40% of the total population diagnosed with some form of heart disease or arthritis, according to the Center for Disease Control.

The Patient Protection and Affordable Care Act has created as degree of uncertainty for medical device companies. Healthcare reform has tightened the pricing environment for these companies and may pressure pricing across the board. However, the act may benefit the industry as it aims to reduce the number of uninsured people.

As of July 1, 2013, a new Medicare competitive bidding program on durable medical equipment went into effect. Under this program, suppliers submit bids to provide certain medical equipment and supplies at a lower price than what Medicare previously paid. Medicare uses the lower prices on those bids to set the amount it will pay for equipment and supplies. Reduced pricing for medical equipment could have an adverse effect on prices medical equipment manufacturers are willing to pay for packaging products. However, the company said it has not yet seen any impact from this to date.

The Patient Protection and Affordable Care Act of 2010 imposed a 2.3% excise tax on the sale price of medical devices effective January 1, 2013. The company said the tax imposed by this Act did not adversely impact its pricing to the medical market.

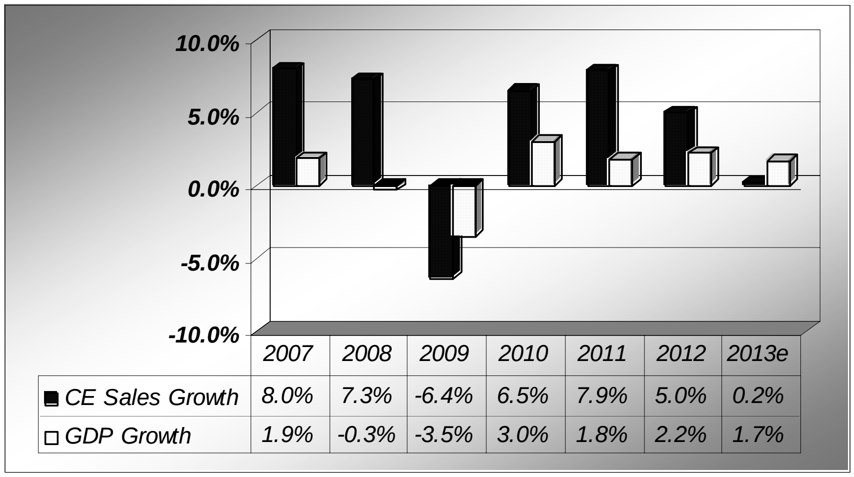
In August 2013, IBISWorld forecasted medical device industry average annual sales growth of 7% to $52.9 billion during the six years to 2019.



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

In July 2013, IBISWorld projected the US automobile industry to show average annual sales growth of 2.3% to $110.6 billion in the six years to 2019. Growth will be driven by renewed consumer spending and a move toward green vehicles. However, a slowing US economy could adversely impact sales of cars through our forecast horizon.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which are economically sensitive. The chart at right shows how consumer electronics sales were affected by changes in the economy over the past six years with the Consumer Electronics Association's projection for 2013.



In June 2013, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.38 to $78 billion during the five years to 2018. Driving this growth will be the introduction of innovative new technologies (like tablet computers and 3D displays) and renewed consumer spending. In August 2013, the US Census Bureau reported that new orders for computers and electronics were down 1.7% sequentially in June 2013. However, computer and electronics orders increased sequentially by 3.2% in April following a 4.6% increase in March. If the US economic recovery stalls, consumer spending could fall below current projections.

UFP Technologies' aerospace and defense products are used in applications such as protective cases and inserts for military equipment (i.e. tools used for large engine rebuilds), uniform and gear components such as backpacks and duty belts used by soldiers in combat, and explosion suppressant foams used in fuel systems of aircrafts. The mandated budget cuts that went into effect on March 1, 2013 are expected to reduce the US government's defense spending by roughly 13% over seven months.

Economic Outlook

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

In July 2013, the International Monetary Fund (IMF) reduced its US economic growth forecast to 1.7% in 2013 and 2.7% in 2014, down from an earlier (April 2013) growth forecast of 1.9% for 2013 and 2.9% for 2014. The IMF's projections assumed that the government spending cuts will remain in place until 2014, longer than previously projected. Another round of government spending cuts could be on the horizon. The Senate Appropriations Committee is currently spending $91 billion above and beyond levels agreed to in the Budget Control Act. If the government spends more than the limits set forth in the Budget Control Act, another round of spending cuts could be triggered.

According to the Congressional Budget Office, the US economy could grow much more quickly were it not for the automatic spending cuts. In a July 25, 2013 letter to a member of Congress, the Congressional Budget Office estimated that if the automatic spending cuts were cancelled, the level of GDP would increase by 0.7 percent and employment would increase by 0.9 million by the third quarter of calendar 2014 relative to current projections.

As the company sells 95% of its products in the US, a growing (albeit slowly) US economy should bode well for sales of the company's products through our forecast horizon.

Competition

The packaging industry is highly competitive. While there are several national companies that sell interior packaging, the company's primary competition for its packaging are smaller independent regional manufacturing companies. The company's foam and fiber packaging products also compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The company's component products compete with smaller companies that typically concentrate on production of component products for specific industries.

Proximity is a key competitive factor in the packaging business. Companies shipping products typically buy packaging from vendors that are relatively close to their manufacturing facilities to increase shipping efficiency and decrease costs. As many US companies move their manufacturing operations overseas, particularly to the Far East, the associated packaging business often follows. UFP Technologies has lost customers in the past and may lose customers again in the future as a result of customers moving their manufacturing facilities offshore, then hiring competitors that operate packaging-production facilities perceived to be more territorially advantageous.

Other competitive factors are price, product performance, product reliability, and customer service. We believe the company's ability to custom design proprietary manufacturing equipment in conjunction with its machinery suppliers enables the company to effectively differentiate its products. For example, UFPT has custom-designed its own lamination machines allowing the company to achieve adhesive bonds between cross-linked foam and fabric and other materials that do not easily combine. These specialty laminates typically command higher prices than traditional foam products.

Some of UFPT's public competitors include Graphic Packaging (GPK), Packaging Corp. of America (PKG), Greif (GEF), Bemis Company (BMS), and Sealed Air Corp (SEE). TTM sales and gross margins for UFP Technologies and its public competitors are shown at right.

Symbol	Sales TTM	YoY % Change TTM Sales	Gross Margin
GPK	$4.4B (6/13)	2%	16.5%
PKG	$3.0B (6/13)	11%	23.6%
GEF	$4.3B (4/13)	-2%	18.4%
BMS	$5.1B (6/13)	-3%	19.3%
SEE	$7.7B (6/13)	8%	33.5%
UFPT	$134.9M (6/13)	5%	28.6%

Source: Company filings

UFPT's margins are at the high end of the range for our comparison group, due arguably to the company's ability to differentiate its products. Most of the company's competitors primarily offer conventional shipping and packaging products (i.e. shipping containers and boxes) or flexible packaging products (i.e. plastic bags, films and laminates) whereas UFP Technologies offers products that are custom designed and engineered for specific applications (i.e. customized foam case inserts for the electronics industry).

Projections

In the second half of 2012 a new door panel program for Cadillac ATS and XTS vehicles was launched, potentially offsetting the 2012 expiration of an automotive contract. The company expanded its molded fiber product line to accommodate heavier products (such as personal computers) and increased its capacity to meet the strong demand for its molded fiber products (sales up 21% in 2012). However, the increased sales associated with these efforts are being partially offset by reduced military sales (down $1.8 million in 1H13 alone) stemming from automatic spending cuts in specific Federal expenditures.

The recent acquisition of Packaging Alternatives Corporation (PAC) should be accretive to 2013 revenue by approximately $10.8 million, boosting revenue growth to 7%. Excluding sales from PAC, we project UFPT's organic sales growth would be down approximately 2% in 2013, down from our previous projection of 2% growth primarily due a greater adverse effect on military sales than previously anticipated.

2013 Forecast

For 2013, we project revenue of $140 million and net income of $10.6 million or $1.50 per share. Our projections are down from $143.1 million revenue and net income of $11.4 million or $1.60 per share to reflect recent results. SG&A expenses should increase to $23.9 million from $21.5 million in 2012 due to increased sales and additional employees. SG&A margins are projected to increase to 17.1% from 16.4% with a full year's inclusion of PAC. Lower margin sales from newly acquired Packaging Alternatives Corporation (acquired in December 2012), will compress gross margins to 28.6% (versus 29.2% in 2012). Taxes are estimated at 33.6% as the company receives a domestic production deduction which typically offsets state taxes.

In 2013, we project $13 million cash from operations consisting of cash earnings of $14.5 million and increases in working capital of $1.5 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. We project 49 days sales outstanding in 2013 and inventory turnover of 10X, both figures in line with 2012 actual numbers. Cash from operations should cover capital expenditures and a $1 million repayment of long-term debt increasing cash by $8.9 million to $42.4 million at the end of the year.

2014 Forecast

For 2014, we project revenue of $150 million and net income of $12.4 million or $1.71 per share. Our projections are down from revenue of $153.2 million and net income of $12.8 million or $1.78 per share due primarily to lower organic sales than previously anticipated ($139 million currently versus $143 million previously). The increase in sales volume should improve overhead coverage, widening gross margins to 29% (versus 28.6% in 2013). SG&A expenses should increase to $24.9 million from $23.9 million in 2013 due to normal inflationary increases increase while SG&A margins are projected to decrease to 16.6% due to the relatively fixed nature of SG&A expenses (approximately 3% related to commission expense according to management) against increased sales. Taxes are estimated at 34%.

In 2014, we project cash earnings of $16.5 million and increases in working capital of $1.5 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. We project 49 days sales outstanding in 2013 and inventory turnover of 10X, both figures in line with 2012 actual numbers and our 2013 estimates. Cash from operations of $15.1 million should cover capital expenditures and a $1 million repayment of long-term debt increasing cash by $11.6 million to $53 million at the end of the year.

2Q and 1H13 Financial Results

2Q13 - Sales increased 6% to $35.8 million. Net income increased to $3 million or $0.42 per share from $2.7 million or $0.39 per share. We projected 2Q13 sales of $36.5 million and net income of $3.1 million or $0.44 per share.

The increase in sales was primarily due to increased sales to the medical industry offset in part by lower sales to the defense markets. The increase in sales to the medical industry was mostly due to the December 2012 acquisition of Packaging Alternatives Corporation (PAC). The decrease in sales to the defense market was due to government spending cuts.

Gross margins increased to 29.9% from 28.8% primarily due to increased higher margin medical sales according to management. SG&A expenses increased to $6.1 million from $5.4 million primarily from the inclusion of the PAC operations. The company showed an effective income tax rate of 35% in 2Q13.

IH13 - Sales increased 6% to $69.5 million. Net income decreased to $5 million or $0.71 per share from $5.1 million or $0.72 per share.

Income Statement
(in thousands $)

	6mos13A	6mos12A
Net sales	69,529	65,625
Cost of sales	49,908	46,733
Gross profit	19,621	18,892
Extraordinary items	11	(12)
SG&A	12,021	10,910
Operating income	7,589	7,994
Interest exp, other inc and exp	(85)	(32)
Income before taxes	7,504	7,962
Income tax	2,491	2,866
Net Income / (Loss)	5,013	5,096
EPS	0.71	0.72
Shares Outstanding	7,089	7,046
Margin Analysis		
Gross margin	28.2%	28.8%
SG&A	17.3%	16.6%
Operating margin	10.9%	12.2%
Tax rate	33.2%	36.0%
Year / Year Growth		
Total Revenues	5.9%	
Net Income	(1.6)%	
EPS	(2.2)%	

Source: Company filings

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

Gross margins decreased to 28.2% from 28.8% primarily due to the increased material requirements of PAC sales against lower organic sales and the effects of inflation on overhead. SG&A expenses increased to $12 million from $10.9 million primarily from the inclusion of the PAC operations. The company showed an effective income tax rate of 33.2% in 1H13.

Liquidity

The company has a strong balance sheet. Long-term debt is $8.1 million, tangible equity is $69.5 million, and cash (approximately $5.04 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is 0.1 versus 1.4 for the industry.

Cash of $5.1 million from operations in 1H13 consisted mainly of $5 million cash earnings. This cash covered capital expenditures of $3.5 million and $0.5 million used in financing activities, increasing cash by $0.8 million to $34.3 million as of June 30, 2013.

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

As of June 30, 2013, the company had approximately $16.9 million available on its revolving line of credit based upon available collateral. The credit facility bears interest at LIBOR plus 1.0% to 1.5% or, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The company's $17 million revolving credit facility is due November 30, 2013; the term loans are all due on January 29, 2016. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant which the company was in compliance with at June 30, 2013. The interest rate on these facilities was 1.2% at June 30, 2013.

In October 2012, UFPT entered into a $5 million 1.83% fixed rate loan agreement to finance the purchase of two new molded fiber machines. The outstanding balance was $4.3 million as of June 30, 2013. The loan is secured by the related molded fiber machines.

Risks

In our view, these are the principal risks underlying the stock:

<u>Dependence on a small number of customers</u>
The company's top ten customers represented approximately 27% of total revenues in 2012. A single automotive program accounted for approximately 4% of total sales in 2012. The loss of sales to a large customer would have a material adverse effect on projected financial results.

<u>Competition</u>
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.

<u>Economic conditions</u>
Poor economic conditions could negatively impact sales of the company's packaging customers.

Environmental considerations
Future government action may impose restrictions affecting the industries in which the company operates. There can be no assurance that any such action will not adversely impact UFP Technologies.

Liquidity
With only 6.8 million shares outstanding and 5.1 million in the float, liquidity issues must be considered. Average daily volume has been approximately 26,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

Miscellaneous
The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Balance Sheets
(in thousands $)

	2010A	2011A	2012A	6/13A	2013E	2014E
Cash and cash equivalents	22,103	29,849	33,479	34,271	42,371	52,983
Receivables	14,634	15,619	17,836	18,662	19,071	20,429
Inventories	8,044	9,758	9,695	10,891	10,446	11,129
Prepaid expenses	1,035	559	654	1,195	1,195	1,195
Refundable income taxes	1,414	1,086	1,714	-	1,659	1,938
Deferred income taxes	1,209	1,169	1,116	1,126	1,126	1,126
Total current assets	48,439	58,040	64,494	66,145	75,868	88,800
Net property, plant and equipment	12,575	13,346	23,318	25,085	24,135	24,821
Goodwill	6,481	6,481	7,039	7,322	7,322	7,322
Intangible assets	594	399	2,084	1,585	1,585	1,585
Other assets	1,389	1,455	1,682	1,788	1,788	1,788
Total assets	**69,478**	**79,721**	**98,617**	**101,925**	**110,698**	**124,316**
Current portion of long-term debt	654	581	1,550	1,548	1,548	1,548
Accounts payable	2,838	3,344	4,088	3,980	4,405	4,693
Accrued expenses	6,679	5,540	7,593	5,826	8,119	8,697
Total current liabilities	10,171	9,465	13,231	11,354	14,071	14,937
Long-term debt	6,847	5,639	8,314	8,126	7,314	6,314
Deferred income taxes	881	1,292	1,589	1,592	1,592	1,592
Other liabilities	1,352	1,340	2,222	2,426	2,426	2,426
Total liabilities	**19,251**	**17,736**	**25,356**	**23,498**	**25,403**	**25,269**
Total stockholders' equity	**50,227**	**61,985**	**73,261**	**78,427**	**85,294**	**99,047**
Total liabilities & stockholders' equity	**69,478**	**79,721**	**98,617**	**101,925**	**110,698**	**124,316**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2010A	2011A	2012A	2013E	2014E
Net sales	120,766	127,244	130,962	140,029	150,000
Cost of sales	86,150	90,999	92,777	99,963	106,500
Gross profit	34,616	36,245	38,185	40,066	43,500
Extraordinary items	-	(839)	(12)	11	-
SG&A	20,236	21,368	21,531	23,936	24,900
Operating income	14,380	15,716	16,666	16,119	18,600
Non-operating expenses	46	(27)	(92)	(75)	140
Income before taxes	14,426	15,689	16,574	16,044	18,740
Income tax	5,019	4,906	5,679	5,396	6,372
Net Income / (Loss)	9,247	10,346	10,895	10,648	12,368
EPS	1.37	1.48	1.55	1.50	1.71
Shares Outstanding	6,757	6,999	7,028	7,113	7,213
Margin Analysis					
Gross margin	28.7%	28.5%	29.2%	28.6%	29.0%
SG&A	16.8%	16.8%	16.4%	17.1%	16.6%
Operating margin	11.9%	12.4%	12.7%	11.5%	12.4%
Pretax margin	11.9%	12.3%	12.7%	11.5%	12.5%
Tax rate	34.8%	31.3%	34.3%	33.6%	34.0%
Year / Year Growth					
Total Revenues	21.7%	5.4%	2.9%	6.9%	7.1%
Net Income	56.0%	11.9%	5.3%	(2.3)%	16.2%
EPS	45.3%	8.0%	4.9%	(3.4)%	14.6%

Source: Company filings and Taglich Brothers' estimates

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

	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13A	9/13E	12/13E	2013E	3/14E	6/14E	9/14E	12/14E	2014E
Net sales	31,952	33,673	31,967	33,370	130,962	33,697	35,832	34,500	36,000	140,029	36,600	38,550	36,600	38,250	150,000
Cost of sales	22,751	23,982	22,741	23,303	92,777	24,795	25,113	24,495	25,560	99,963	25,986	27,371	25,986	27,158	106,500
Gross profit	9,201	9,691	9,226	10,067	38,185	8,902	10,719	10,005	10,440	40,066	10,614	11,180	10,614	11,093	43,500
Extraordinary items	(5)	(7)	-	-	(12)	-	11	-	-	11	-	-	-	-	-
SG&A	5,518	5,392	5,156	5,465	21,531	5,946	6,075	5,865	6,050	23,936	6,075	6,400	6,075	6,350	24,900
Operating income	3,688	4,306	4,070	4,602	16,666	2,956	4,633	4,140	4,390	16,119	4,539	4,780	4,539	4,743	18,600
Non-operating expenses	(17)	(14)	(14)	(47)	(92)	(40)	(45)	-	10	(75)	20	30	40	50	140
Income before taxes	3,671	4,292	4,056	4,555	16,574	2,916	4,588	4,140	4,400	16,044	4,559	4,810	4,579	4,793	18,740
Income tax	1,322	1,545	1,460	1,352	5,679	886	1,606	1,408	1,496	5,396	1,550	1,635	1,557	1,629	6,372
Net Income / (Loss)	2,349	2,747	2,596	3,203	10,895	2,030	2,982	2,732	2,904	10,648	3,009	3,174	3,022	3,163	12,368
EPS	0.33	0.39	0.37	0.45	1.55	0.29	0.42	0.38	0.41	1.50	0.42	0.44	0.42	0.44	1.71
Shares Outstanding	7,030	7,055	7,075	7,055	7,028	7,088	7,090	7,125	7,150	7,113	7,175	7,200	7,225	7,250	7,213
Margin Analysis															
Gross margin	28.8%	28.8%	28.9%	30.2%	29.2%	26.4%	29.9%	29.0%	29.0%	28.6%	29.0%	29.0%	29.0%	29.0%	29.0%
SG&A	17.3%	16.0%	16.1%	16.4%	16.4%	17.6%	17.0%	17.0%	16.8%	17.1%	16.6%	16.6%	16.6%	16.6%	16.6%
Operating margin	11.5%	12.8%	12.7%	13.8%	12.7%	8.8%	12.9%	12.0%	12.2%	11.5%	12.4%	12.4%	12.4%	12.4%	12.4%
Pretax margin	11.5%	12.7%	12.7%	13.6%	12.7%	8.7%	12.8%	12.0%	12.2%	11.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Tax rate	36.0%	36.0%	36.0%	29.7%	34.3%	30.4%	35.0%	34.0%	34.0%	33.6%	34.0%	34.0%	34.0%	34.0%	34.0%
Year / Year Growth															
Total Revenues	1.4%	0.5%	3.9%	6.0%	2.9%	5.5%	6.4%	7.9%	7.9%	6.9%	8.6%	7.6%	6.1%	6.3%	7.1%
Net Income	6.5%	1.7%	6.6%	6.6%	5.3%	(13.6)%	8.6%	5.3%	(9.3)%	(2.3)%	48.2%	6.4%	10.6%	8.9%	16.2%
EPS	5.6%	0.6%	5.5%	5.9%	4.9%	(14.3)%	8.0%	4.5%	(10.5)%	(3.4)%	46.4%	4.8%	9.1%	7.4%	14.6%

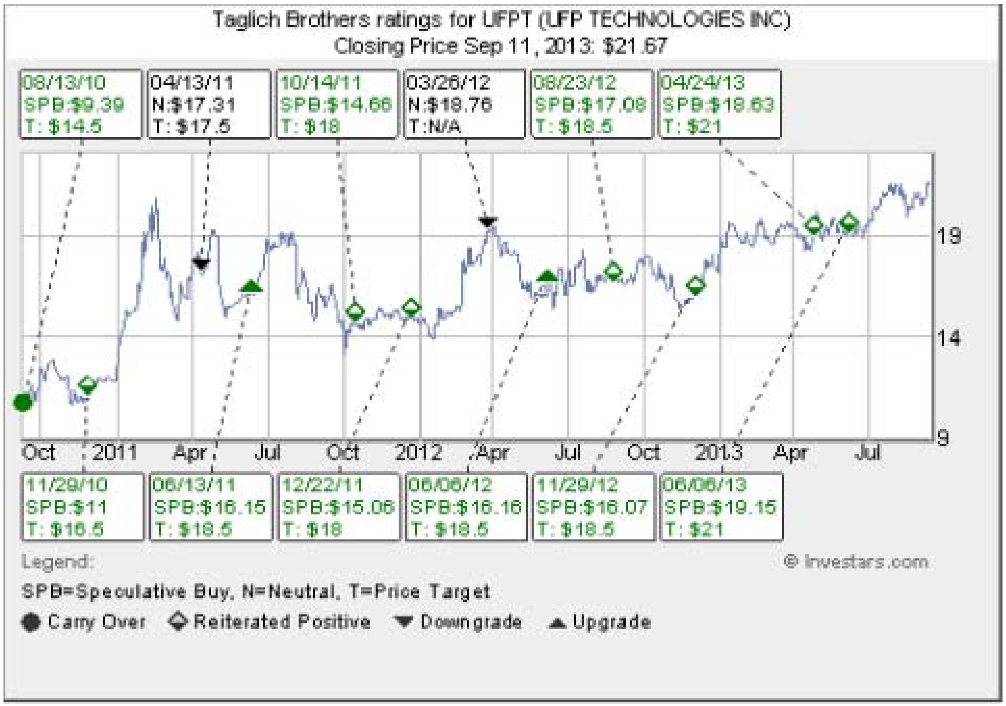
Source: Company filings and Taglich Brothers' estimates

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

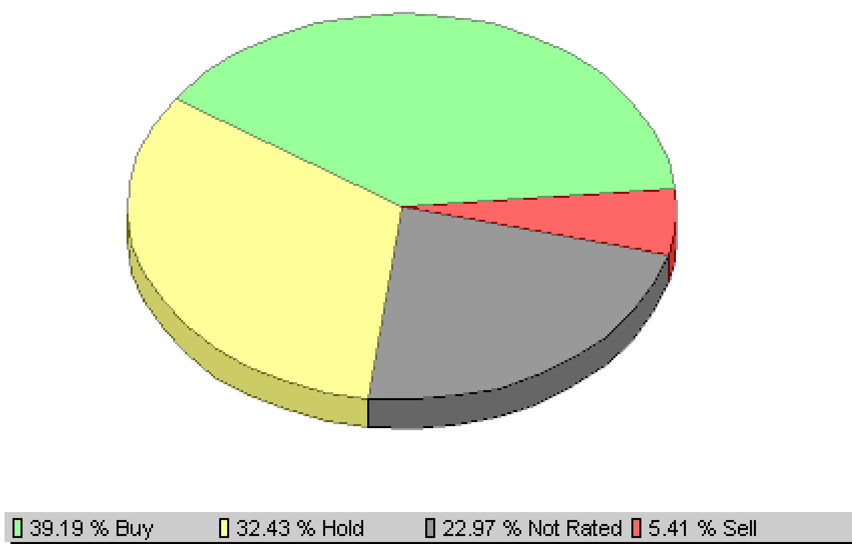
	2010A	2011A	2012A	6mos13A	2013E	2014E
Net income	9,407	10,784	10,895	5,012	10,648	12,368
Depreciation & amortization	3,152	2,781	2,928	1,977	3,118	3,314
Gain on acquisition	-	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(12)	(839)	(12)	11	11	-
Share-based compensation	964	1,089	860	507	860	860
Stock issued in lieu of compensation	79	55	-	-	-	-
Excess tax benefit on share-based compensation	(854)	(700)	(832)	(8)	(832)	(832)
Deferred income taxes	306	452	610	(7)	707	831
Changes in assets and liabilities						
Receivables	(415)	(985)	(842)	(826)	(1,235)	(1,358)
Inventories	(397)	(1,714)	801	(1,196)	(751)	(683)
Prepaid expenses	(559)	476	(65)	(540)	(541)	-
Refundable income taxes	(1,414)	327	(695)	1,714	55	(279)
Accounts payable	161	507	384	(108)	317	288
Accrued expenses and other	1,381	(440)	2,143	(1,559)	526	578
Retirement and other liabilities	234	(12)	190	203	204	-
Other assets	(205)	(65)	(203)	(105)	(106)	-
Net Cash Provided by Operations	**11,828**	**11,716**	**16,162**	**5,075**	**12,981**	**15,087**
Additions to property, plant and equipment	(3,286)	(3,741)	(11,994)	(3,545)	(4,000)	(4,000)
Redemption of cash value life insurance	-	-	-	-	-	-
Proceeds from sale of property, plant and equipment	12	1,223	86	5	5	-
Acquisitions	-	-	(3,596)	(200)	(200)	-
Net Cash Used in Investing	**(3,274)**	**(2,518)**	**(15,504)**	**(3,740)**	**(4,195)**	**(4,000)**
Proceeds from long-term borrowings	-	-	4,384	580	580	-
Distribution to United Development Company partners	(105)	(289)	(1,196)	-	-	-
Tax benefit from exercise of non-qualified stock options	854	700	832	7	832	832
Proceeds from exercise of stock options	507	250	365	65	365	365
Payment of statutory withholdings for stock options exercised	(485)	(830)	(672)	(426)	(672)	(672)
Principal repayments of long-term debt	(624)	(1,282)	(740)	(770)	(1,000)	(1,000)
Principle repayments of capital lease obligations	-	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**147**	**(1,451)**	**2,973**	**(544)**	**105**	**(475)**
Net Change in Cash	**8,701**	**7,747**	**3,631**	**791**	**8,891**	**10,612**
Cash - Beginning of Period	**13,401**	**22,102**	**29,849**	**33,480**	**33,480**	**42,371**
Cash - End of Period	**22,102**	**29,849**	**33,480**	**34,271**	**42,371**	**52,983**
Cash Flow from Operations	11,828	11,716	16,162	5,075	12,981	15,087
Capital Expenditures	(3,286)	(3,741)	(11,994)	(3,545)	(4,000)	(4,000)
Free Cash Flow	8,542	7,975	4,168	1,530	8,981	11,087

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	4
Hold	1	14
Sell		
Not Rated		

Important Disclosures

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

Graphic Packaging (NYSE: GPK)
Packaging Corp. of America (NYSE: PKG)
Greif (NYSE: GEF)
Bemis Company (NYSE: BMS)
Sealed Air Corp. (NYSE: SEE)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.