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Research Report – Update

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

UFP Technologies, Inc.

Rating: Speculative Buy

John Nobile
October 14, 2011

UFPT $14.66 — (NASDAQ CM)

	2009A	2010A	2011E	2012E
Revenues (millions)	$99.2	$120.8	$129.2	$138.4
Earnings per share (diluted)	$0.94	$1.37	$1.41	$1.64

52-Week range	$21.59 – $10.50	Fiscal year ends:	December
Shares outstanding as of 7/28/11	6.5 million	Revenue per share (TTM)	$18.41
Approximate float	4.4 million	Price/Sales (TTM)	0.8X
Market capitalization	$95 million	Price/Sales (2012)E	0.8X
Tangible book value/share	$7.60	Price/Earnings (TTM)	10.0X
Price/tangible book	1.9X	Price/Earnings (2012)E	8.9X

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:

Reiterate Speculative Buy rating on UFP Technologies (UFPT). Lowered twelve-month price target to $18.00 from $18.50 per share based on a lowered earnings forecast.

Growth is projected for UFPT's principal end markets, driven by an aging population, increasing sales of fuel-efficient cars, and innovative new electronics products.

Sales grew organically by 10% in 2010 and H1/11 results show that rate of growth increased to 11%. The company should continue growing, albeit at a slower rate.

Projections for slow economic growth and the loss of a significant portion of a long-term automotive program should diminish revenue growth to approximately 7% in 2011 and 2012.

For 2011, we project revenue of $129.2 million and EPS of $1.41, down from revenue of $131.6 million and EPS of $1.48 previously.

For 2012, we project revenue of $138.4 million and EPS of $1.64 per share, down from revenue of $142.3 million and EPS of $1.69 previously.

UFPT reported Q2/11 sales increased 12% to $33.5 million while EPS increased to $0.39 from $0.34. We estimated Q2/11 sales of $33.4 million and EPS of $0.40.

Please view our disclosures on pages 12 - 14.

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies but lowering our **twelve-month price target to $18.00 per share (from $18.50)** based on a lowered earnings forecast.

From 2004 to 2010, UFPT traded at an average earnings multiple of 12X. During that period, the stock's P/E ranged between 6X and 28X. We believe the growth we are projecting should keep the multiple close to its historic average. Applying a multiple of 12X to our 2012 earnings of $1.64 per share discounted to a twelve-month value of $1.52 per share gives us a price target of approximately $18.00.

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 in the United States.

Sales of the company's components products were responsible for 67% of total sales in 2010 while packaging products comprised 33%. Since 2005, sales of component products have averaged annual growth of approximately 11% while packaging products have averaged annual growth of approximately 4% during that time frame. Judging by the magnitude of revenue changes generated by UFPT's principal end markets, we believe that approximately 35% of total sales are to the medical device industry for applications such as compression-molded foam finger splints, orthopedic foam components, and dental fluoride trays. We believe that the remaining industries UFPT sells to (automotive, defense, electronics, and industrial) are evenly split in regard to percent of total revenue to between 10% – 20%.

The company's high-performance cushion packaging products are made primarily from polyethylene and polyurethane foams, and a wide range of sheet plastics. These products are custom designed and fabricated or molded to provide protection for fragile and valuable items, and are sold primarily to original equipment and component manufacturers. Molded fiber products are made primarily from 100% recycled paper principally derived from waste newspaper. These products are custom designed, engineered and molded into shapes for packaging high volume consumer goods, including computer components, medical devices, other light electronics, scented candles, and health and beauty products.

The cushion packaging market is characterized by three primary sectors: (1) custom fabricated or molded products for low volume, high fragility products; (2) molded or die-cut products for high volume, industrial and consumer goods; and (3) loose fill and commodity packaging materials for products that do not require custom-designed packaging. The company serves the low volume, high fragility market and the high volume industrial and consumer market with a range of materials and manufacturing capabilities, but does not materially serve the commodity packaging market.

In addition to packaging products, UFPT fabricates and molds component products made from cross-linked polyethylene foam and other materials. The company also laminates fabrics and other materials to cross-linked polyethylene foams, polyurethane foams and other substrates. UFPT's component products include automotive interior trim, athletic padding, industrial safety belts, components for medical equipment and devices, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

Cross-linked foams have many advantages over traditional foams, including the ability to be thermoformed (molded), availability in vibrant colors, a fine cell structure providing improved esthetics and lower abrasiveness, and enhanced resistance to chemicals and ultraviolet light. Certain grades of cross-linked foams can be radiation-sterilized and have been approved by the U.S. Food and Drug Administration for open wound skin contact.

The company differentiates itself is through the design and production of customized foam case inserts for the automotive, computers and electronics, medical, aerospace and defense, consumer, and industrial markets (see picture). Through a combination of materials, technology, and engineering, the company is able to produce unique case inserts for surgical instruments, customized repair kits, electronic parts, emergency response equipment, and many other applications. The company's ability to offer customized products should continue to drive growth.

Industry Outlook

IBISWorld forecasts the urethane and foam products industry growth of 4.6% in 2011 and 4.2% in 2012. The industries that UFP sells to are projected to show growth going forward.

Medical device sales are primarily dependent on demographics. IBISWorld has observed that an aging population and technological advancements are among the top factors that should influence the medical device industry over the next five years. However, we believe that the weak economy could put a damper on hi-value elective procedures involving medical devices resulting in a slower growth rate for this industry. In September 2011, IBISWorld forecasted the medical device industry to grow sales by an average annual rate of 6.4% to $82.1 billion during the five years to 2016. This rate is slower than average annual rate of 16.4% over the five years to 2011.

The US automobile industry appears set for growth. An article in Automotive News (October 10, 2011; Why auto sales will outpace the economy) said that automakers expect new car sales to outperform the sluggish economy in the coming months just as they did in September 2011. Driving this optimism is a flood of new and redesigned models, replenished Japanese models, and a belief that demand would not remain pent-up much longer. The article cited the disintegration of the US car fleet, with the average car in use more than ten years old. We believe that the growth in this market will be mostly from sales of hybrids and fuel-efficient cars. During the five years to 2016, IBISWorld expects industry revenue to rise 4.2% annually to $102.3 billion.

The consumer electronics industry has grown at an average annual rate of 5% from 2003 to 2006 but came to an abrupt halt in 2007 with the onset of the recession. The economic downturn and subsequent declines in consumer spending have adversely affected consumer electronics demand and according to IBISWorld, is projected to decline at an average annual rate of 3.0% from 2007 to 2011. However, the introduction of innovative new technologies (like tablet computers and 3D displays) should drive growth going forward. In August 2011, IBISWorld projected this industry to show modest growth (1.3%) in 2011 after several years of declines. IBISWorld forecasted sales from US consumer electronics stores to grow at an average annual rate of approximately 3% to $91.8 billion during the five years to 2016.

Growth is projected for the aerospace and defense industry. Industry research firm Datamonitor projects the global aerospace and defense market to have a value of $1,190.5 billion in 2014, for a compound annual growth rate of approximately 5%.

Economic Outlook

As the majority of UFPT's sales are to economically sensitive industries, we believe a brief discussion on the economic outlook bears mentioning.

The September 2011 World Economic Outlook from the International Monetary Fund (IMF) said that economic growth was slowing and downside risks were rising. The IMF projected global growth to moderate to 4% through 2012. In the US, economic growth was projected to be 1.5% in 2011 and 1.8% in 2012. This is down from the IMF's projections in June 2011 calling for global growth of 4.3% in 2011 and 4.5% in 2012 and US growth of 2.5% in 2011 and 2.7% in 2012. The European debt markets could run beyond the control of policymakers, leading to a default in European debt that could have negative repercussions throughout the global economies that have exposure to this debt. Activity in the US, which has slowed in recent months, might suffer further blows. The risks to the US economy include political divisions that leave the course of US policy uncertain, a weak housing market, rapid increases in household savings rates, and deteriorating financial conditions.

Consistent with the IMF's lower growth outlook for the economy is the Federal Reserve's revised outlook. In August 2011, the Federal Reserve's Federal Open Market Committee indicated that economic growth so far this year has been considerably slower than the Committee had expected. The Committee now expects a somewhat slower pace of recovery over the coming quarters than it did previously.

The Conference Board's Consumer Confident Index, which declined sharply in August 2011, remained essentially unchanged in September 2011. The Conference Board Consumer Research Center said the pessimism that shrouded consumers in August 2011 spilled over into September. Consumer expectations, which had plummeted in August 2011, posted a marginal gain in September. However, consumers expressed greater concern about their expected earnings, a sign that does not bode well for spending. We believe this weak spending outlook will limit consumer spending on automobiles and consumer electronics (some of UFPT's end markets).

Competition

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

Some of UFPT's public competitors include Graphic Packaging, Packaging Corp. of America, Greif, Bemis Company, Smurfit-Stone Container, and Sealed Air Corp. As a group, UFPT's competitors grew revenues at an average rate of approximately 15% in 2010 versus 22% for UFPT.

Projections

2011 Forecast

Over the past five years, UFPT's sales have grown twice as fast as the packaging and containers industry, reflecting an ability to find optimal fitting acquisition candidates and markets where its products add the most value. The company grew sales organically by 10% in 2010 and H1/11 results show an increase in that rate of growth to 11%. We believe the company should continue growing, albeit at a slower rate. Projections for slow economic growth and the loss of a significant portion of a long-term automotive program that was responsible for 9% of total sales in 2010 should diminish revenue growth to approximately 7% in 2011 and 2012.

For 2011, we project revenue of $129.2 million and net income of $9.9 million or $1.41 per share. We previously estimated revenue of $131.6 million and net income of $10.5 million or $1.48 per share. The decrease in our estimates is primarily due to the weak economic outlook and the loss of a portion (approximately 2/3 or $7.5 million) of a long-term automotive program occurring over a one-year period versus earlier estimates calling for a phase-out over a three year period. We are maintaining gross margins at 29.2% as a greater percentage of total revenue (94% versus 91% in 2010) will come from higher margin non-automotive product sales.

SG&A expenses should increase to $22.3 million and SG&A margins should increase to 17.3% from 16.8% due to the development of enhanced internal operating and information systems which are responsible for approximately $0.5 million of the increase in SG&A expenses. We are maintaining our tax rate projection of 36% (lower than the typical 37% rate) due to income in the first quarter of 2011 related to the company's noncontrolling interest in UDT that was not subject to corporate income tax.

In 2011, we project $13.7 million cash from operations driven by cash earnings of $13.0 million and reductions in working capital of $0.7 million. We project $2.2 million of capital expenditures. Financing activities consist primarily of $1.3 million principal repayments of long-term debt. We project an increase in cash of $10.9 million for a year end cash balance of $35.4 million.

2012 Forecast

For 2012, we project revenue of $138.4 million and net income of $11.9 million or $1.64 per share. We previously estimated revenue of $142.3 million and net income of $12.3 million or $1.69 per share. The decrease in our estimates is primarily due to the weak economic outlook and the loss of a portion (approximately 2/3 or $7.5 million) of a long-term automotive program occurring over a one-year period versus earlier estimates calling for a phase-out over a three year period.

We are increasing gross margins to 30.3% as higher sales volumes should increase overhead coverage and a greater percentage of total revenue (97% versus 94% in 2011) should come from higher margin non-automotive product sales. We project increased SG&A expenses with the higher level of sales, however, SG&A margin should decrease to 16.4% from 17.3%. We are maintaining a tax rate projection of 37%.

In 2012, we project $15.3 million cash from operations driven by cash earnings of $16.1 million and increases in working capital of $0.8 million. We project 44 days sales outstanding in 2012 and inventory turnover of 11; both figures are in line with 2010 actual numbers and our 2011 estimates. We project $2.2 million of capital expenditures. Financing activities consist primarily of $0.8 million principal repayments of long-term debt. We project an increase in cash of $11.5 million for a year end cash balance of $46.9 million.

Q2 and Six Months Financial Results

For the second quarter sales increased 12% to $33.5 million. Net income was $2.7 million or $0.39 per share in Q2/11 versus net income of $2.3 million or $0.34 per share in Q2/10.

We projected Q2/11 sales of $33.4 million and net income of $2.8 million or $0.40 per share.

The increase in sales was primarily due to a $2.8 million increase in sales of interior trim parts to the automotive industry as well as a $0.6 million increase in sales of molded fiber packaging. The increase in sales was partially offset by a $1.4 million decrease in sales to the medical industry due to the loss of a portion of a large medical account in the second half of 2010. Gross margins decreased to 29.9% from 30.2% due to product mix. SG&A expenses increased to $5.7 million from $5.4 million primarily due to a $0.2 million increase in professional fees and a $0.1 million increase in salaries.

The company showed a Q2/11 effective income tax rate of approximately 37% excluding net income attributable to noncontrolling interests in Q2/11 and Q2/10.

For the first six months in 2011, revenue increased 11% to $65.0 million. Net income was $4.9 million or $0.70 per share versus net income of $3.8 million or $0.57 per share in the first six months of 2010. The results for the first six months of 2011 included a $0.8 million gain from the sale of real estate in Alabama by an affiliated partnership, UDT (the company consolidates the realty limited partnership's financial statements of which it owns 26.32%). Of this $0.8 million gain, approximately $428,000 relates to non-controlling interests that have been deducted to determine net interest attributable to UFPT.

The increase in sales was primarily due to a $4.4 million increase in sales of interior trim parts to the automotive industry as well as a $1.6 million increase in sales to the defense and aerospace industry. The increase in sales was partially offset by a $3.1 million decrease in sales to the medical industry due to the loss of a portion of a large medical account in the second half of 2010. Gross margins increased to 28.9% from 28.1% due to increased overhead coverage. SG&A expenses increased to $11.4 million from $10.4 million primarily due to a $0.5 million increase in professional fees and a $0.3 million increase in salaries.

The company showed an H1/11 effective income tax rate of approximately 37% excluding net income attributable to noncontrolling interests in H1/11 and H1/10.

	6mos2010	6mos2011
Net sales	**$ 58,658**	**$ 65,005**
Cost of sales	42,154	46,200
Gross profit	16,504	18,805
SG&A	10,399	11,412
Extraordinary items	(12)	(834)
Operating income	6,117	8,227
Interest expense, other income and expenses	(70)	(10)
Income before taxes	6,047	8,217
Income tax	2,227	2,881
Income attributable to noncontrol. interests	(27)	(429)
Net Income / (Loss)	**$ 3,793**	**$ 4,907**
Diluted EPS	**$ 0.57**	**$ 0.70**
Diluted Shares Outstanding	6,691	6,974
Margin Analysis		
Gross margin	28.1%	28.9%
SG&A	17.7%	17.6%
Operating margin	10.4%	12.7%

Liquidity

The company has a strong balance sheet. Long-term debt is $5.9 million (for a debt/equity ratio of 0.1 versus 1.0 for the industry) and cash (approximately $4.34 per share) exceeds all indebtedness and liabilities.

Cash of $5.0 million from operations for the six month period consisted mainly of cash earnings of $6.3 million offset by increases in working capital of $1.3 million due primarily to increased receivables and inventory offset in part by increased accounts payable and lower taxes receivable. Capital expenditures of $1.0 million and proceeds of $1.2 million from the sale of fixed assets resulted in $0.2 million cash from investing activities. Long-term debt principal payments of $1.0 million and $0.6 million payment of statutory withholdings for stock options accounted for most of the cash used in financing activities. The net result was a $3.7 million net increase in cash for a balance of $28.1 million as of June 30, 2011.

UFPT's available bank credit facilities are as follows: a $17 million revolving line of credit, a $2.1 million term loan with 7 year straight-line amortization, a $1.8 million term loan with 20 year straight-line amortization, and a $4.0 million term loan with 20 year straight-line amortization.

As of June 30, 2011, the company had approximately $16.9 million available on its revolving line of credit based upon available collateral. The credit facility bears interest at LIBOR plus 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The company's $17 million revolving credit facility is due November 30, 2013; the term loans are all due on January 29, 2016. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant which the company was in compliance with at June 30, 2011. The interest rate on these facilities was 1.24% at June 30, 2011.

Risks

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

Dependence on a small number of customers
The company's top ten customers represented approximately 31% of total revenues in 2010. A single automotive program accounted for approximately 9% of total sales in 2010. Approximately 2/3 of this program is scheduled to phase out beginning in Q3/11.

Environmental Considerations
The company is aware of public support for environmentally responsible packaging and other products. Future government action may impose restrictions affecting the industry in which the company operates. There can be no assurance that any such action will not adversely impact UFP Technologies' products and business.

Economic conditions
Poor economic conditions could negatively impact sales of the company's packaging customers which in turn would have an adverse affect on UFPT's sales.

Competition
The packaging and component products industries are highly competitive. The company's primary competition for its packaging products has been from smaller independent regional manufacturers. UFPT's component products face competition from smaller companies that typically concentrate on production of component products for specific industries.

Liquidity
With only 6.5 million shares outstanding and 4.4 million in the float, liquidity issues must be considered. Average daily volume has been approximately 28,000 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.

UFP Technologies, Inc.

Balance Sheet for the Periods Ended
(in thousands $)

	2008A	2009A	2010A	6/11A	2011E	2012E
Current assets:						
Cash and cash equivalents	6,729	14,999	24,434	28,118	35,372	46,893
Receivables	12,755	14,218	14,634	16,154	15,651	16,765
Inventories	8,153	7,647	8,044	8,991	8,536	9,007
Prepaid expenses	516	476	1,035	935	1,128	1,200
Refundable income taxes	-	-	1,414	856	-	-
Deferred income taxes	1,489	1,411	1,209	1,195	1,000	1,200
Total current assets	29,642	38,751	50,770	56,249	61,687	75,065
Net property, plant and equipment	11,754	12,218	12,575	11,902	11,800	11,200
Deferred income taxes	-	-	-	-	-	-
Goodwill	6,481	6,481	6,481	6,481	6,481	6,481
Other assets	846	2,002	1,983	1,965	2,000	2,000
Total assets	**48,723**	**59,452**	**71,809**	**76,597**	**81,968**	**94,746**
Current liabilities:						
Current portion of long-term debt	717	623	654	611	600	600
Current portion of capital lease obligations	703	-	-	-	-	-
Accounts payable	3,304	4,274	5,169	5,584	5,485	5,788
Accrued taxes and other expenses	6,230	6,153	6,679	6,465	7,143	7,651
Total current liabilities	10,954	11,050	12,502	12,660	13,228	14,039
Long-term debt	3,942	7,502	6,847	5,929	5,620	5,200
Capital lease obligations	910	-	-	-	-	-
Minority interest	523	-	-	-	-	-
Deferred income taxes	113	777	881	862	900	900
Other liabilities	914	1,118	1,353	1,450	1,474	1,500
Total liabilities	**17,356**	**20,447**	**21,583**	**20,901**	**21,222**	**21,639**
Total stockholders' equity	**31,367**	**39,005**	**50,226**	**55,696**	**60,746**	**73,107**
Total liabilities & stockholders' equity	**48,723**	**59,452**	**71,809**	**76,597**	**81,968**	**94,746**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements for the Years Ended
(in thousands $)

	2008A	2009A	2010A	2011E	2012E
Net sales	110,032	99,231	120,766	129,155	138,350
Cost of sales	81,469	72,512	86,150	91,418	96,465
Gross profit	28,563	26,719	34,616	37,737	41,886
Extraordinary items	1,315	-	-	(834)	-
SG&A	18,823	18,539	20,236	22,287	22,750
Operating income	8,425	8,180	14,380	16,284	19,136
Interest exp, other inc and exp	(314)	618	46	20	60
Income before taxes	8,111	8,798	14,426	16,304	19,196
Income tax	2,995	2,817	5,019	5,874	7,102
Income attrib. to noncontrol. interests	-	(52)	(160)	(508)	(160)
Net Income / (Loss)	5,116	5,929	9,247	9,922	11,933
EPS	0.82	0.94	1.37	1.41	1.64
Shares Outstanding	6,263	6,294	6,757	7,050	7,275
Margin Analysis					
Gross margin	26.0%	26.9%	28.7%	29.2%	30.3%
SG&A	17.1%	18.7%	16.8%	17.3%	16.4%
Operating margin	7.7%	8.2%	11.9%	12.6%	13.8%
Tax rate	36.9%	32.0%	34.8%	36.0%	37.0%
Year / Year Growth					
Total Revenues	17.6%	-9.8%	21.7%	6.9%	7.1%
Net Income	23.0%	15.9%	56.0%	7.3%	20.3%
EPS	15.1%	15.3%	45.3%	2.8%	16.6%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Quarterly Income Statement for the Fiscal Years Ending December 31, 2010, 2011, and 2012
(in thousands $)

	3/10A	6/10A	9/10A	12/10A	2010A	3/11A	6/11A	9/11E	12/11E	2011E	3/12E	6/12E	9/12E	12/12E	2012E
Net sales	28,700	29,957	30,468	31,640	120,766	31,504	33,501	30,800	33,350	129,155	32,500	35,300	33,900	36,650	138,350
Cost of sales	21,243	20,911	21,562	22,434	86,150	22,702	23,498	21,806	23,412	91,418	22,913	24,534	23,730	25,289	96,465
Gross profit	7,457	9,046	8,906	9,206	34,616	8,802	10,003	8,994	9,938	37,737	9,588	10,767	10,170	11,362	41,886
Extraordinary items	-	-	-	-	-	(834)	-	-	-	(834)	-	-	-	-	-
SG&A	5,012	5,387	5,103	4,734	20,236	5,726	5,686	5,425	5,450	22,287	5,650	5,675	5,700	5,725	22,750
Operating income	2,445	3,659	3,803	4,472	14,380	3,910	4,317	3,569	4,488	16,284	3,938	5,092	4,470	5,637	19,136
Interest exp, other inc and exp	(35)	(22)	(35)	139	46	2	(12)	15	15	20	15	15	15	15	60
Income before taxes	2,410	3,637	3,768	4,611	14,426	3,912	4,305	3,584	4,503	16,304	3,953	5,107	4,485	5,652	19,196
Income tax	888	1,339	1,389	1,403	5,019	1,279	1,603	1,326	1,666	5,874	1,462	1,889	1,659	2,091	7,102
Income attrib. to noncontrol. interests	(11)	(16)	(14)	(119)	(160)	(428)	-	(40)	(40)	(508)	(40)	(40)	(40)	(40)	(160)
Net Income / (Loss)	1,511	2,282	2,365	3,089	9,247	2,205	2,702	2,218	2,797	9,922	2,450	3,177	2,786	3,520	11,933
EPS	0.23	0.34	0.35	0.45	1.37	0.32	0.39	0.31	0.39	1.41	0.34	0.44	0.38	0.48	1.64
Shares Outstanding	6,642	6,725	6,785	6,875	6,757	6,969	6,982	7,100	7,150	7,050	7,200	7,250	7,300	7,350	7,275
Margin Analysis															
Gross margin	26.0%	30.2%	29.2%	29.1%	28.7%	27.9%	29.9%	29.2%	29.8%	29.2%	29.5%	30.5%	30.0%	31.0%	30.3%
SG&A	17.5%	18.0%	16.7%	15.0%	16.8%	18.2%	17.0%	17.6%	16.3%	17.3%	17.4%	16.1%	16.8%	15.6%	16.4%
Operating margin	8.5%	12.2%	12.5%	14.1%	11.9%	12.4%	12.9%	11.6%	13.5%	12.6%	12.1%	14.4%	13.2%	15.4%	13.8%
Tax rate	36.8%	36.8%	36.9%	30.4%	34.8%	32.7%	37.2%	37.0%	37.0%	36.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Year / Year Growth															
Total Revenues	32.8%	42.9%	10.3%	8.9%	21.7%	9.8%	11.8%	1.1%	5.4%	6.9%	3.2%	5.4%	10.1%	9.9%	7.1%
Net Income	338.0%	303.2%	12.0%	6.3%	56.0%	45.9%	18.4%	-6.2%	-9.5%	7.3%	11.1%	17.6%	25.6%	25.9%	20.3%
EPS	305.7%	271.2%	4.0%	0.5%	45.3%	39.1%	14.0%	-10.4%	-12.9%	2.8%	7.5%	13.2%	22.2%	22.4%	16.6%

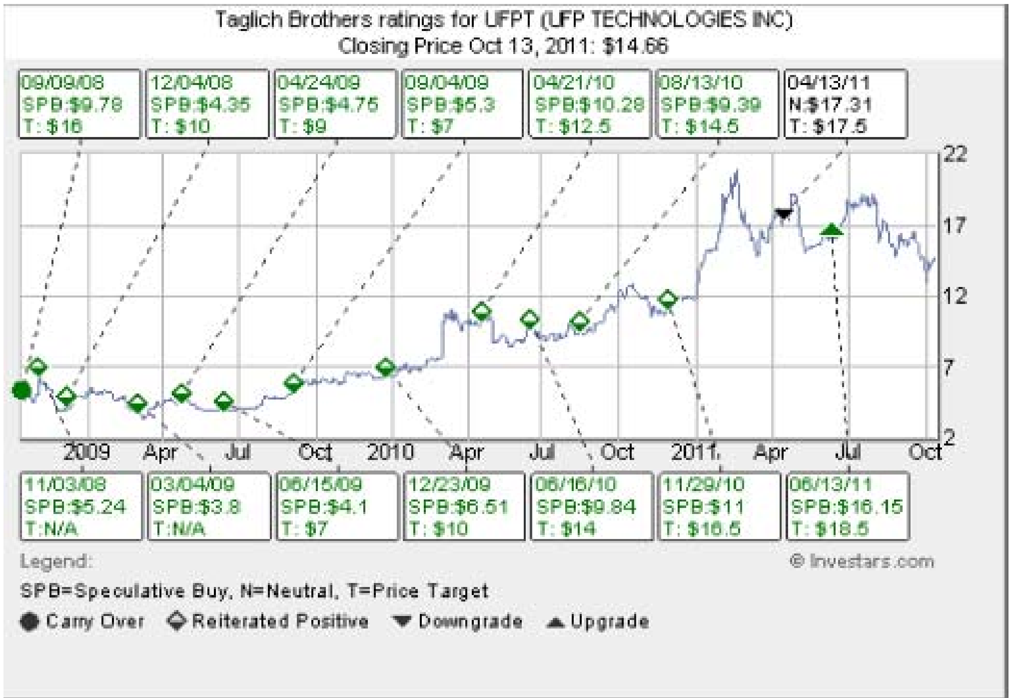
Source: Company filings and Taglich Brothers' estimates

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

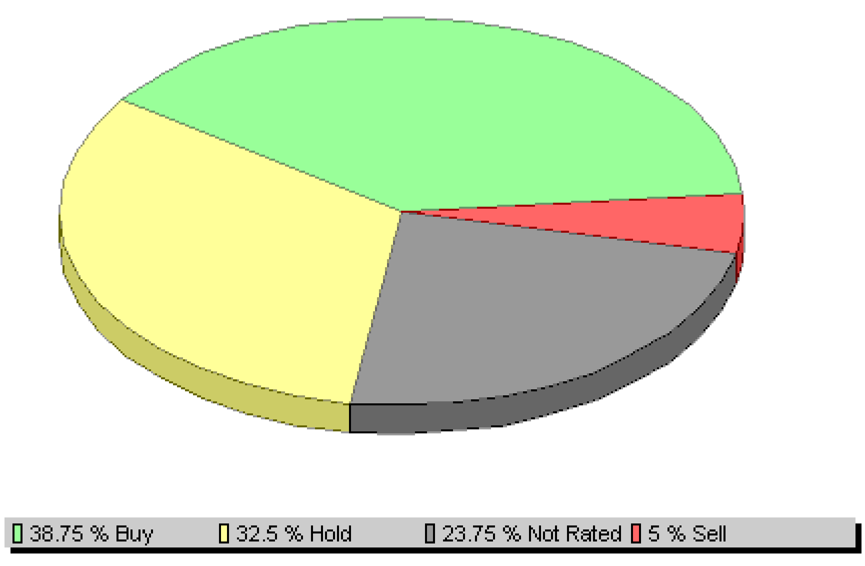
	2008A	2009A	2010A	6mos11A	2011E	2012E
Net income	5,116	5,982	9,407	5,336	9,922	11,933
Depreciation & amortization	2,977	2,895	3,152	1,404	2,800	2,800
Restructuring leasehold improvement write-off	170	-	-	-	-	-
Equity in net income of unconsolidated affiliate	(7)	-	-	-	-	-
Minority interest	44	-	-	-	-	-
Gain on acquisition	-	(840)	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(57)	(11)	(12)	(834)	(834)	-
Share-based compensation	1,306	901	964	631	1,200	1,200
Stock issued in lieu of compensation	344	184	79	55	100	100
Excess tax benefit on share-based compensation				(307)	(297)	
Deferred income taxes	16	227	306	(5)	100	100
Changes in assets and liabilities						
Receivables	777	(342)	(415)	(1,520)	(1,017)	(1,114)
Inventories	(435)	1,863	(397)	(946)	(492)	(471)
Prepaid expenses	350	73	(559)	100	(93)	(72)
Refundable income taxes	-	-	(1,414)	558	1,414	-
Accounts payable	(2,777)	393	895	416	316	303
Accrued expenses and other	(937)	(331)	527	92	464	509
Retirement and other liabilites	(119)	204	234	97	121	26
Other assets	(83)	(509)	(205)	(92)	(17)	-
Net Cash Provided by Operations	**6,685**	**10,689**	**12,562**	**4,985**	**13,687**	**15,313**
Additions to property, plant and equipment	(2,763)	(1,857)	(3,286)	(1,004)	(2,200)	(2,200)
Cash surrender value of officers' life insurane	(15)	-	-	-	-	-
Payments from affiliated company	7	-	-	-	-	-
Proceeds from sale of property, plant and equipment	101	13	12	1,217	1,217	-
Acquisitions	(5,181)	(2,435)	-	-	-	-
Net Cash Used in Investing	**(7,851)**	**(4,279)**	**(3,274)**	**213**	**(983)**	**(2,200)**
Borrowings (payments) of notes payable	-	-	-	-	-	-
Proceeds from long-term borrowings	-	4,000	-	-	-	-
Distribution to United Development Company partners	(105)	(105)	(105)	(289)	(289)	(289)
Tax benefit from exercise of non-qualified stock options	211	23	854	307	307	-
Net proceeds from sale of common stock	20	-	-	-	-	-
Proceeds from exercise of stock options	333	130	507	68	136	136
Payment of statutory witholdings for stock options exercised	-	-	(485)	(639)	(639)	(639)
Principal repayments of long-term debt	(714)	(577)	(624)	(961)	(1,281)	(800)
Principle repayments of capital lease obligations	(704)	(1,612)	-	-	-	-
Proceeds from refinancing capital leases	-	-	-	-	-	-
Cash settlement of restricted stock units	(206)	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(1,165)**	**1,859**	**147**	**(1,514)**	**(1,766)**	**(1,592)**
Net Change in Cash	**(2,331)**	**8,269**	**9,435**	**3,684**	**10,938**	**11,521**
Cash - Beginning of Period	**9,060**	**6,729**	**14,999**	**24,434**	**24,434**	**35,372**
Cash - End of Period	**6,729**	**14,999**	**24,434**	**28,118**	**35,372**	**46,893**
Cash Flow from Operations	6,685	10,689	12,562	4,985	13,687	15,313
Capital Expenditures	(2,763)	(1,857)	(3,286)	(1,004)	(2,200)	(2,200)
Free Cash Flow	3,922	8,832	9,276	3,981	11,487	13,113

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy		
Hold	None	
Sell		
Not Rated		

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

Public Companies Mentioned in this Report

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

Meaning of Ratings

Buy

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical "buy" recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Dropping Coverage

We have discontinued research coverage of the company due to termination of research services, non-payment for such services 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.