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Research Report – Update

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

UFP Technologies, Inc.

Rating: Buy

John Nobile
November 25, 2014

UFPT $22.30 — (NASDAQ CM)

	2012A	2013A	2014E	2015E
Revenues (millions)	$131.0	$139.2	$139.7	$146.7
Earnings per share (diluted)	$1.55	$1.59	$1.13	$1.73

52-Week range	$27.43 – $20.55	Fiscal year ends:	December
Shares outstanding as of 11/3/14	7.1 million	Revenue per share (TTM)	$19.42
Approximate float	5.6 million	Price/Sales (TTM)	1.1X
Market capitalization	$158 million	Price/Sales (2015)E	1.1X
Tangible book value/share	$11.99	Price/Earnings (TTM)	17.0X
Price/tangible book	1.9X	Price/Earnings (2015)E	12.9X

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:

Upgrading our rating to Buy (previously Speculative Buy) and maintaining twelve-month price target of $27.50. Our upgrade is based on improving risk/reward considerations stemming from the company's stable growth, expected margin improvement, strong balance sheet, and improving US economic conditions.

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

Plant consolidations in 2H14 are projected to reduce costs by approximately $1.3 million annually, driving gross margin improvement to 30% by 2015 from 27.2% in 2013.

For 2014, we project revenue of $139.7 million and EPS of $1.13, down from earlier projections of $140.6 million revenue and EPS of $1.29 to reflect 3Q14 results and the adverse impact that the California plant consolidation is expected to have on sales in 4Q14.

For 2015, we project revenue of $146.7 million and EPS of $1.73, relatively unchanged from previous projections.

3Q14 revenue (10-Q released 11/7/14) increased 2% to $35.4 million and EPS decreased to $0.29 from $0.41. We projected 3Q14 revenue of $35.8 million and EPS of $0.31. 3Q14 results included $0.8 million of restructuring costs associated with plant consolidations.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

We are upgrading our rating to **Buy** (previously Speculative Buy**)** on UFP Technologies and maintaining our **twelve-month price target of $27.50.** Our upgrade is based on improving risk/reward considerations stemming from the company's stable growth, expected margin improvement, strong balance sheet, and improving US economic conditions.

Shares of UFPT have been trading at multiples of approximately 16X to 17X TTM earnings over the past two months, in line with its 2013 average of 16X. The company's direct competitors are trading at an average multiple of 17X TTM earnings (excludes Graphic Packaging's 43X multiple and Sealed Air's 38X multiple). Applying a multiple of 16X to our 2015 earnings estimate of $1.73 per share gives us a price target of approximately $27.50.

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. UFPT's sales are to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the US.

An estimated 35% of 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 2014, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 1.8% to $10.4 billion over the six years to 2019. 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.

The Patient Protection and Affordable Care Act (PPAC) 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, PPAC may benefit the industry as it aims to reduce the number of uninsured people.

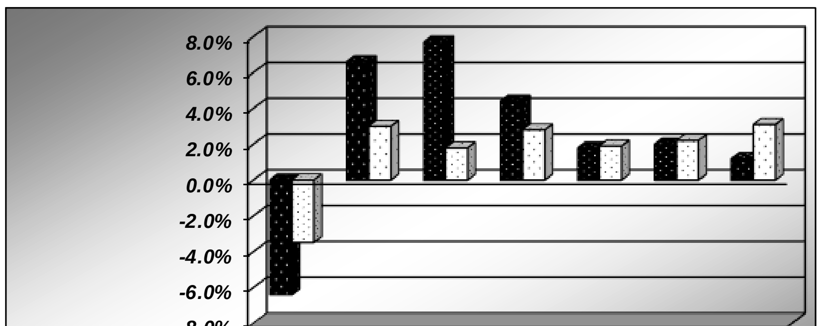
In 2013, a new Medicare competitive bidding program on durable medical equipment went into effect. Medicare uses the lower prices on the bids from this program to set the amount it will pay for equipment and supplies. Reduced pricing for medical equipment could have an adverse effect on prices medical equipment manufacturers are willing to pay for packaging products. However, the company has not seen any impact from this.

The Patient Protection and Affordable Care Act imposed a 2.3% excise tax on the sale price of medical devices effective January 1, 2013. Republican efforts to repeal the tax since it went into effect have been unsuccessful and, as of the date of this report, the tax still stands. However, the newly elected Republican leaders in Congress will probably repeal this tax as a floor vote and passage is likely according to an article in Investor's Business Daily[1].

In October 2014, IBISWorld forecasted medical device industry average annual sales growth of approximately 6.6% to $55 billion during the six years to 2020.

In November 2014, IBISWorld projected the US car and automobile industry to show average annual sales growth of 2.9% to $121 billion in the six years to 2020. Growth will be driven by renewed consumer spending and a move toward green (hybrid and electric fuel-efficient) vehicles.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which are economically sensitive. The chart at right shows how US consumer electronics sales were affected by changes in the economy over the past five years with the Consumer Electronics Association's projections for 2014.



	2009	2010	2011	2012	2013	2014e	2015e
US CE Sales Growth	-6.4%	6.6%	7.7%	4.4%	1.8%	2.0%	1.2%
US GDP Growth	-3.5%	3.0%	1.8%	2.8%	1.9%	2.2%	3.1%

Source: Consumer Electronics Association; International Monetary Fund

In September 2014, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.7% to $84.1 billion during the six years to 2020. This growth will be driven by new technologies (like tablet computers and mobile devices) and consumer spending.

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. US defense spending in 2013 declined by 7% and is projected to remain relatively flat in 2014 and 2015 according to the most recent US Department of Defense budget request (March 2014). This reduced level of defense spending is likely to have an adverse effect on UFPT's sales to this market.

1. Whitfield, Paul (November 5, 2014). "Medical-Device Stocks Could Benefit From Tax Repeal. Investors Business Daily.

Economic Outlook

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

In October 2014, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.3% in 2014, down from an earlier (July 2014) growth forecast of 3.4% to reflect setbacks such as high debt burdens and high unemployment in advanced economies during the first half of 2014. However, global growth is projected to increase 3.8% in 2015 driven by a recovery in both the advanced economies and emerging markets.

In November 2014, major foreign economies made moves to bolster economic growth in the face of a global slowdown. China's central bank cut interest rates, the European Central Bank said it was ready to step up stimulus for the 18-country Eurozone economy, and Japan's government delayed a tax increase after the country slipped back into recession.

The IMF's economic growth estimate for the US was revised upward to 2.2% in 2014 from 1.7% (July 2014) while the 2015 estimate remained unchanged at 3.1%. The IMF said that US employment growth has been strong and household balance sheets have improved amid favorable financial conditions and a recovering housing market.

As the company sells 95% of its products in the US, a growing 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 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, Packaging Corp. of America, Greif, Bemis Company, and Sealed Air Corp. TTM sales and gross margins for UFP Technologies and its public competitors are shown at right.

Company	Sales TTM	Gross Margin
Graphic Packaging	$4.3B (9/14)	16.8%
Packaging Corp. of America	$5.7B (9/14)	15.1%
Greif	$4.4B (7/14)	18.8%
Bemis Company	$4.9B (9/14)	19.7%
Sealed Air Corp.	$7.8B (9/14)	33.2%
UFP Technologies	$139.0M (9/14)	28.1%

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

2014 Forecast

For 2014, we project revenue of $139.7 million ($140.6 million previously) and net income of $8.1 million or $1.13 per share (previously $9.3 million or $1.29 per share). Excluding the $1.6 million one-time costs associated with plant consolidations, EPS would be approximately $1.27. Our lower projections reflect 3Q14 results and the adverse impact the California consolidation (ceasing operations at the Costa Mesa plant and consolidating operations into the Rancho Dominguez plant) should have on sales in 4Q14.

Our estimates reflect approximately $1.6 million in one-time expenses related to a planned plant consolidations. In 3Q14, the company substantially completed the consolidation of its Glendale Heights, Illinois facility into its Grand Rapids, Michigan facility which is estimated to reduce costs by approximately $0.75 million annually starting in 4Q14. In 4Q14, the company expects to complete its California consolidation which is estimated to reduce costs by approximately $0.55 million annually starting in 1Q15. These consolidations should result in gross margin improvement. However, for 2014, gross margins are expected to decrease to 27.2% from 29.2% in 2013 due to the short-term adverse effect the plant consolidations are having on manufacturing efficiencies.

SG&A expenses should increase to $24.1 million from $23.2 million in 2013 due primarily to increased healthcare and compensation costs. SG&A margins are projected at 17.2%. Operating income is projected to decrease to $12.3 million from $17.4 million with margins decreasing to 8.8% from 12.5%. Taxes are estimated at 35%.

In 2014, we project $13.5 million cash from operations consisting of cash earnings of $13.9 million and increases in working capital of $381,000. The increase in working capital is primarily due to increases in inventories and prepaid expenses. Cash from operations should cover capital expenditures (includes approximately $5 million for additional molded fiber equipment) and repayments of long-term debt, increasing cash by $1.3 million to $38.6 million at the end of 2014.

2015 Forecast

For 2015, we project revenue of $146.7 million and net income of $12.6 million or $1.73 per share (relatively unchanged from previous projections). A full year of cost savings from the 2014 plant consolidations should widen gross margins to 30%. SG&A expenses should increase to $24.7 million from $24.1 million in 2014 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.8% due to the relatively fixed nature of SG&A expenses. Operating income is projected to increase to $19.4 million from $12.3 million with margins increasing to 13.2% from 8.8%. Taxes are estimated at 35%.

In 2015, we project $17.9 million cash from operations consisting of cash earnings of $19.1 million and increases in working capital of $1.1 million. The increase in working capital is primarily due to increases in receivables and inventories. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $11.3 million to $49.9 million at the end of 2015.

3Q and Nine-Months 2014 Financial Results

3Q14 - Sales increased 2% to $35.4 million. Net income decreased to $2.1 million or $0.29 per share from $2.9 million or $0.41 per share. We projected 3Q14 sales of $35.8 million and net income of $2.2 million or $0.31 per share.

The increase in sales was primarily due to an increase in sales to the aerospace and defense market, mainly from a large one-time order from a defense contractor. Gross margins decreased to 27.3% from 29.3% primarily due to higher employee health care costs and manufacturing inefficiencies related to the company's Michigan plant consolidation (which was substantially completed in 3Q14). SG&A expenses increased to $5.9 million from $5.7 million due primarily to increased bad debt expense. Restructuring costs associated with the company's plant consolidations was $0.8 million. Operating income decreased to $3.1 million from $4.5 million resulting in margins decreasing to 8.7% from 12.9%. The company showed an effective income tax rate of 35%.

Nine-months 2014 - Sales were flat at $104 million. Net income decreased to $6 million or $0.84 per share from $7.9 million or $1.11 per share.

A decline in sales to the automotive market due largely to soft demand for interior trim components was offset by increased sales to the medical market. Gross margins decreased to 27.2% from 28.6% primarily due to higher employee health care costs and manufacturing inefficiencies related to the company's Michigan plant consolidation. SG&A expenses increased to $18.2 million from $17.7 million due primarily to increased employee health care costs. Restructuring costs associated with the company's plant consolidations was $1.1 million. Operating income decreased to $9.1 million from $12.1 million resulting in margins decreasing to 8.7% from 11.6%. The company showed an effective income tax rate of 35%.

Income Statement
(in thousands $)

	9mos14A	9mos13A
Net sales	104,040	104,229
Cost of sales	75,773	74,445
Gross profit	28,267	29,784
Extraordinary items	1,026	11
SG&A	18,161	17,700
Operating income	9,080	12,073
Interest exp, other inc and exp	132	(128)
Income before taxes	9,212	11,945
Income tax	3,224	4,046
Net Income / (Loss)	5,988	7,899
EPS	0.84	1.11
Shares Outstanding	7,170	7,096
Margin Analysis		
Gross margin	27.2%	28.6%
SG&A	17.5%	17.0%
Operating margin	8.7%	11.6%
Tax rate	35.0%	33.9%
Year / Year Growth		
Total Revenues	(0.2)%	
Net Income	(24.2)%	
EPS	(25.0)%	

Source: Company filings

Liquidity

The company has a strong balance sheet. Total debt is $3.1 million, tangible equity is $84.6 million, and cash (approximately $4.68 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.3 for the packaging and containers industry.

Cash earnings of $8.9 million and a $2 million increase in working capital resulted in $6.9 million cash provided by operations in the first nine months of 2014. The increase in working capital was primarily due to a $2.4 million increase in inventories. Capital expenditures of $10.9 million were the primary drain on cash resulting in a $4.3 million decrease in cash to $33 million as of September 30, 2014.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of September 30, 2014. 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 revolving credit facility matures November 30, 2018. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant which the company was in compliance with at September 30, 2014.

UFPT has a $5 million 1.83% fixed rate loan agreement to finance the purchase of two new molded fiber machines. The outstanding balance was $3.1 million as of June 30, 2014. The loan is secured by the related molded fiber machines.

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 28% of total revenues in 2013. The loss of sales to a large customer would have a material adverse effect on projected financial results.

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.

Economic conditions
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 7.1 million shares outstanding and 5.6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 21,000 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 $)

	2011A	2012A	2013A	9/14A	2014E	2015E
Cash and cash equivalents	29,849	33,479	37,303	33,048	38,598	49,932
Receivables	15,619	17,836	17,032	18,565	17,095	17,947
Inventories	9,758	9,695	11,048	13,500	11,402	11,509
Prepaid expenses	559	654	690	947	947	947
Refundable income taxes	1,086	1,714	1,537	829	1,112	1,733
Deferred income taxes	1,169	1,116	1,222	1,284	1,284	1,284
Total current assets	58,040	64,494	68,832	68,173	70,438	83,352
Net property, plant and equipment	13,346	23,318	25,507	33,539	32,924	34,163
Goodwill	6,481	7,039	7,322	7,322	7,322	7,322
Intangible assets	399	2,084	1,346	1,033	953	635
Other assets	1,455	1,682	2,013	2,071	2,071	2,071
Total assets	**79,721**	**98,617**	**105,020**	**112,138**	**113,708**	**127,543**
Current portion of long-term debt	581	1,550	976	989	989	989
Accounts payable	3,344	4,088	3,081	5,269	3,180	3,210
Accrued expenses	5,540	7,593	8,265	7,001	8,296	8,709
Total current liabilities	9,465	13,231	12,322	13,259	12,464	12,908
Long-term debt	5,639	8,314	2,867	2,123	2,123	1,123
Deferred income taxes	1,292	1,589	2,436	2,151	2,151	2,151
Other liabilities	1,340	2,222	1,805	1,602	1,602	1,602
Total liabilities	**17,736**	**25,356**	**19,430**	**19,135**	**18,340**	**17,784**
Total stockholders' equity	**61,985**	**73,261**	**85,590**	**93,003**	**95,368**	**109,760**
Total liabilities & stockholders' equity	**79,721**	**98,617**	**105,020**	**112,138**	**113,708**	**127,543**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2011A	2012A	2013A	2014E	2015E
Net sales	127,244	130,962	139,223	139,740	146,700
Cost of sales	90,999	92,777	98,574	101,735	102,690
Gross profit	36,245	38,185	40,649	38,006	44,010
Extraordinary items	(839)	(12)	11	1,586	-
SG&A	21,368	21,531	23,240	24,096	24,650
Operating income	15,716	16,666	17,398	12,324	19,360
Non-operating (expenses) income	(27)	(92)	(205)	112	20
Income before taxes	15,689	16,574	17,193	12,436	19,380
Income tax	4,906	5,679	5,917	4,353	6,783
Net Income / (Loss)	10,346	10,895	11,276	8,083	12,597
EPS	1.48	1.55	1.59	1.13	1.73
Shares Outstanding	6,999	7,028	7,105	7,176	7,263
Margin Analysis					
Gross margin	28.5%	29.2%	29.2%	27.2%	30.0%
SG&A	16.8%	16.4%	16.7%	17.2%	16.8%
Operating margin	12.4%	12.7%	12.5%	8.8%	13.2%
Pretax margin	12.3%	12.7%	12.3%	8.9%	13.2%
Tax rate	31.3%	34.3%	34.4%	35.0%	35.0%
Year / Year Growth					
Total Revenues	5.4%	2.9%	6.3%	0.4%	5.0%
Net Income	11.9%	5.3%	3.5%	(28.3)%	55.8%
EPS	8.0%	4.9%	2.4%	(29.0)%	54.0%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2013 - 2015E
(in thousands $)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14A	6/14A	9/14A	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	33,697	35,832	34,700	34,993	139,223	34,609	34,025	35,406	35,700	139,740	35,500	37,400	36,800	37,000	146,700
Cost of sales	24,795	25,113	24,538	24,128	98,574	25,580	24,549	25,723	25,883	101,735	24,850	26,180	25,760	25,900	102,690
Gross profit	8,902	10,719	10,162	10,865	40,649	9,029	9,476	9,683	9,818	38,006	10,650	11,220	11,040	11,100	44,010
Extraordinary items	-	11	-	-	11	-	222	714	650	1,586	-	-	-	-	-
SG&A	5,946	6,075	5,679	5,540	23,240	5,834	6,466	5,871	5,925	24,096	5,950	6,300	6,200	6,200	24,650
Operating income	2,956	4,633	4,483	5,325	17,398	3,195	2,788	3,098	3,243	12,324	4,700	4,920	4,840	4,900	19,360
Non-operating (expenses) income	(40)	(45)	(43)	(76)	(205)	(22)	73	81	(20)	112	80	(20)	(20)	(20)	20
Income before taxes	2,916	4,588	4,440	5,249	17,193	3,173	2,861	3,179	3,223	12,436	4,780	4,900	4,820	4,880	19,380
Income tax	886	1,606	1,554	1,872	5,917	1,111	1,001	1,113	1,128	4,353	1,673	1,715	1,687	1,708	6,783
Net Income / (Loss)	2,030	2,982	2,886	3,377	11,276	2,062	1,860	2,066	2,095	8,083	3,107	3,185	3,133	3,172	12,597
EPS	0.29	0.42	0.41	0.47	1.59	0.29	0.26	0.29	0.29	1.13	0.43	0.44	0.43	0.43	1.73
Shares Outstanding	7,088	7,090	7,112	7,133	7,105	7,148	7,168	7,186	7,200	7,176	7,225	7,250	7,275	7,300	7,263
Margin Analysis															
Gross margin	26.4%	29.9%	29.3%	31.0%	29.2%	26.1%	27.9%	27.3%	27.5%	27.2%	30.0%	30.0%	30.0%	30.0%	30.0%
SG&A	17.6%	17.0%	16.4%	15.8%	16.7%	16.9%	19.0%	16.6%	16.6%	17.2%	16.8%	16.8%	16.8%	16.8%	16.8%
Operating margin	8.8%	12.9%	12.9%	15.2%	12.5%	9.2%	8.2%	8.7%	9.1%	8.8%	13.2%	13.2%	13.2%	13.2%	13.2%
Pretax margin	8.7%	12.8%	12.8%	15.0%	12.3%	9.2%	8.4%	9.0%	9.0%	8.9%	13.5%	13.1%	13.1%	13.2%	13.2%
Tax rate	30.4%	35.0%	35.0%	35.7%	34.4%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Year / Year Growth															
Total Revenues	5.5%	6.4%	8.5%	4.9%	6.3%	2.7%	-5.0%	2.0%	2.0%	0.4%	2.6%	9.9%	3.9%	3.6%	5.0%
Net Income	(13.6)%	8.6%	11.2%	5.4%	3.5%	1.6%	(37.6)%	(28.4)%	(38.0)%	(28.3)%	50.7%	71.2%	51.6%	51.4%	55.8%
EPS	(14.3)%	8.0%	10.6%	4.3%	2.4%	0.7%	(38.3)%	(29.1)%	(38.6)%	(29.0)%	49.1%	69.3%	49.8%	49.4%	54.0%

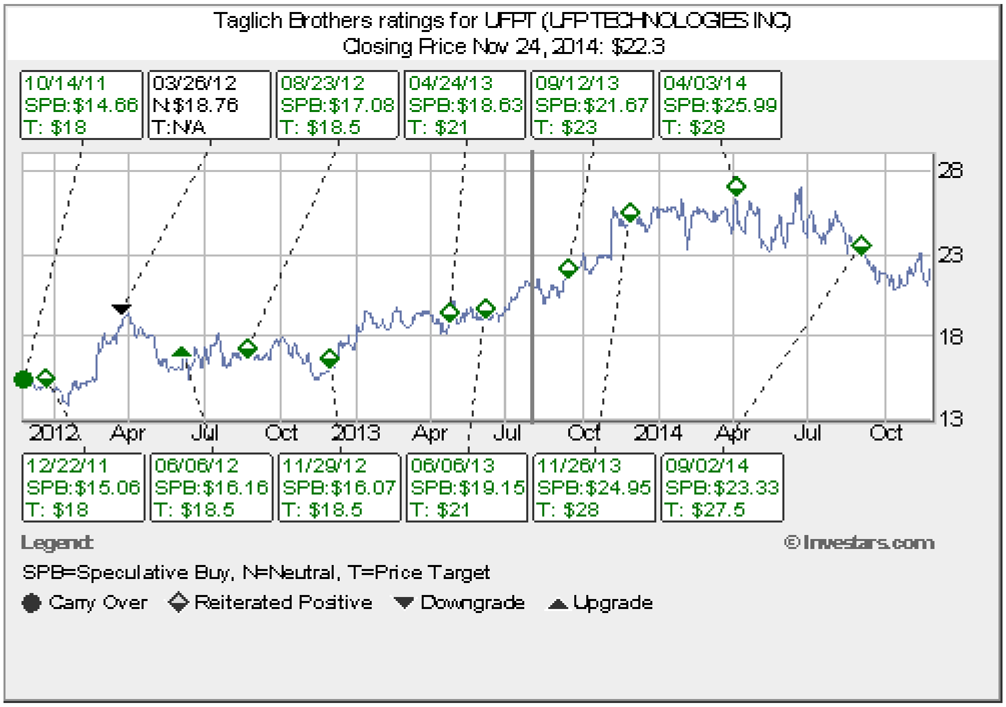
Source: Company filings and Taglich Brothers' estimates

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

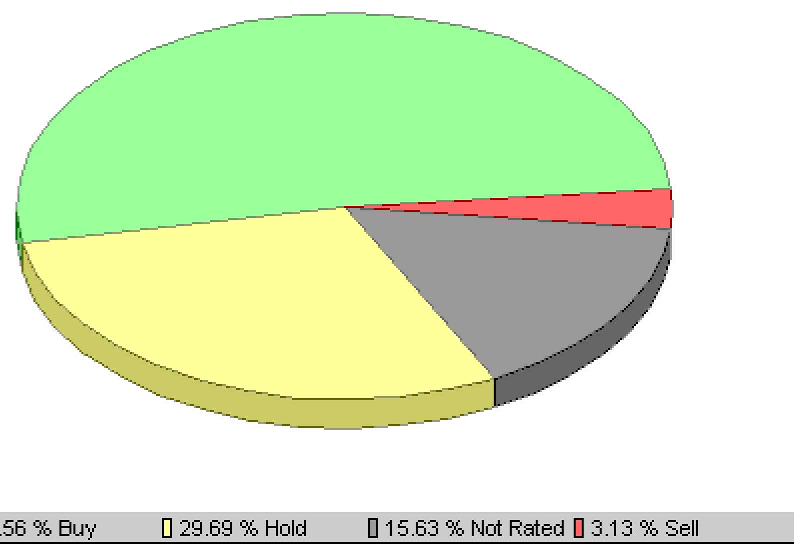
	2011A	2012A	2013A	9mos14A	2014E	2015E
Net income	10,784	10,895	11,276	5,988	8,083	12,597
Depreciation & amortization	2,781	2,928	4,084	3,207	4,976	5,079
Gain on acquisition	-	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(839)	(12)	11	(70)	(70)	-
Share-based compensation	1,089	860	924	945	1,300	1,400
Stock issued in lieu of compensation	55	-	-	-	-	-
Excess tax benefit on share-based compensation	(700)	(832)	(818)	(845)	(845)	(845)
Deferred income taxes	452	610	740	(347)	484	845
Cash earnings	13,622	14,449	16,217	8,878	13,928	19,076
Changes in assets and liabilities						
Receivables	(985)	(842)	804	(1,533)	(63)	(851)
Inventories	(1,714)	801	(1,353)	(2,452)	(354)	(107)
Prepaid expenses	476	(65)	(36)	(257)	(257)	-
Refundable income taxes	327	(695)	994	1,553	425	(621)
Accounts payable	507	384	(1,007)	2,188	99	30
Accrued expenses and other	(440)	2,143	1,272	(1,264)	31	413
Retirement and other liabilities	(12)	190	(417)	(203)	(203)	-
Other assets	(65)	(203)	(368)	(58)	(58)	-
(Increase) decrease in working capital	(1,906)	1,713	(111)	(2,026)	(381)	(1,137)
Net Cash Provided by Operations	**11,716**	**16,162**	**16,106**	**6,852**	**13,547**	**17,939**
Additions to property, plant and equipment	(3,741)	(11,994)	(5,830)	(10,940)	(12,000)	(6,000)
Escrow deposit	-	-	-	-	-	-
Redemption of cash value life insurance	-	-	37	-	-	-
Proceeds from sale of property, plant and equipment	1,223	86	1	84	84	-
Acquisitions	-	(3,596)	(600)	-	-	-
Net Cash Used in Investing	**(2,518)**	**(15,504)**	**(6,392)**	**(10,856)**	**(11,916)**	**(6,000)**
Proceeds from long-term borrowings	-	4,384	580	-	-	-
Distribution to United Development Company partners	(289)	(1,196)	-	-	-	-
Tax benefit from exercise of non-qualified stock options	700	832	818	845	845	845
Proceeds from exercise of stock options	250	365	191	336	450	450
Payment of statutory withholdings for stock options exercised	(830)	(672)	(879)	(701)	(900)	(900)
Principal repayments of long-term debt	(1,282)	(740)	(6,601)	(731)	(731)	(1,000)
Principle repayments of capital lease obligations	-	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(1,451)**	**2,973**	**(5,891)**	**(251)**	**(336)**	**(605)**
Net Change in Cash	**7,747**	**3,631**	**3,823**	**(4,255)**	**1,295**	**11,334**
Cash - Beginning of Period	**22,102**	**29,849**	**33,480**	**37,303**	**37,303**	**38,598**
Cash - End of Period	**29,849**	**33,480**	**37,303**	**33,048**	**38,598**	**49,932**

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	2	8
Hold	1	20
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.