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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
November 26, 2013

UFPT $24.95 — (NASDAQ CM)

	2011A	2012A	2013E	2014E
Revenues (millions)	$127.2	$131.0	$140.2	$150.0
Earnings per share (diluted)	$1.48	$1.55	$1.53	$1.75

52-Week range	$26.18 – $15.27	Fiscal year ends:	December
Shares outstanding as of 11/1/13	6.9 million	Revenue per share (TTM)	$20.29
Approximate float	5.2 million	Price/Sales (TTM)	1.2X
Market capitalization	$172 million	Price/Sales (2014)E	1.2X
Tangible book value/share	$10.58	Price/Earnings (TTM)	15.9X
Price/tangible book	2.4X	Price/Earnings (2014)E	14.3X

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 $28.00 from $23.00 based on a current trailing PE of 16X 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 12/31/2012 acquisition of Packaging Alternatives Corporation should be accretive to 2013 revenue by approximately $10.5 million, boosting revenue growth to 7%.

Growth in medical market sales has caused margins to exceed our expectations. With 7% annual growth projected for this industry, we raised our gross margin expectations accordingly which resulted in an increase in EPS expectations.

We project 2013 revenue of $140.2 million and EPS of $1.53 per share, up from $140 million revenue and EPS of $1.50 to reflect recent results. For 2014, we project revenue of $150 million, unchanged from our previous projection. Our 2014 EPS projection has increased to $1.75 from $1.71 due primarily to gross margin improvement as sales of higher-margin medical products continue to grow.

3Q13 revenue (reported 11/7/13) increased 9% to $34.7 million and EPS increased to $0.41 from $0.37 in the year-earlier period. We estimated 3Q13 revenue of 34.5 million and EPS of $0.38.

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 and increasing our **twelve-month price target to $28.00** from $23.00.

UFPT is currently trading at a multiple of 16X TTM earnings while its direct competitors are trading at an average multiple of 22X TTM 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 $2.6 billion to $6 billion. Applying the current forward PE multiple of 16X to our 2014 earnings estimate of $1.75 per share gives us a price target of approximately $28.00.

In our view, this stock is suitable for high risk tolerant investors. The stock price is up over 50% in the past year and with the earnings we project, we see limited upside potential. With most of the company's sales to economically sensitive end markets, any slowing in economic growth could reduce our earnings expectations.

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%. 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 2013, IBISWorld forecasted the urethane foam manufacturing 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.

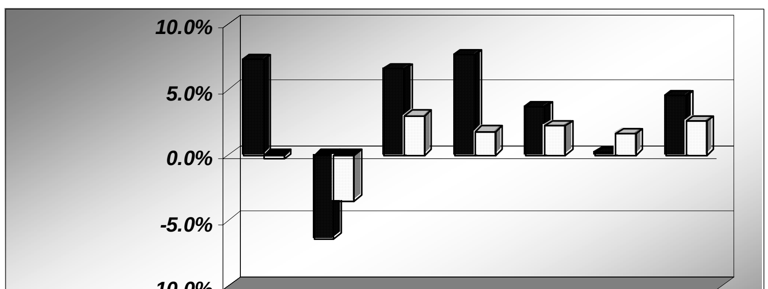
As of July 1, 2013, a new Medicare competitive bidding program on durable medical equipment went into effect. Under this program, suppliers submit bids to provide certain medical equipment and supplies at a lower price than what Medicare previously paid. Medicare uses the lower prices on those bids to 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 has not yet 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. The company said the tax imposed by this Act did not adversely impact its pricing to the medical market.

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

In October 2013, IBISWorld projected the US car and 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 five years with the Consumer Electronics Association's projections for 2013 and 2014.



	2008	2009	2010	2011	2012	2013e	2014e
CE Sales Growth	7.3%	-6.4%	6.6%	7.7%	3.7%	0.2%	4.5%
GDP Growth	-0.3%	-3.5%	3.0%	1.8%	2.2%	1.6%	2.6%

Source: Consumer Electronics Association; International Monetary Fund

In September 2013, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.7% to $79 billion during the six years to 2019. This growth will be driven by new technologies (like tablet computers and 3D displays) and renewed consumer spending. In November 2013, the US Census Bureau reported that new orders for computers and electronics were up 1.7% sequentially in September 2013. However, computer and electronics orders decreased sequentially by 4.6% in August following a 2.8% decrease in July. 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 were expected to reduce the US government's defense spending by roughly 13% this year.

Economic Outlook

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

In October 2013, the International Monetary Fund (IMF) reduced its US economic growth forecast to 1.6% in 2013 and 2.6% in 2014, down from an earlier (July 2013) growth forecast of 1.7% for 2013 and 2.8% for 2014. The IMF said that sharp fiscal tightening in 2013 has taken its toll on economic growth. However, with fiscal tightening expected to ease in 2014, the IMF is projecting economic growth to increase in 2014.

The IMF said that following the sharp fiscal tightening earlier in 2013, activity in the US is starting to increase. This can be evidenced by a recovering real estate sector, higher household wealth, easier bank lending conditions, and increased borrowing.

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 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 YTD	YoY % Change	Gross Margin
Graphic Packaging	$3.4B(9/13)	4%	16.2%
Packaging Corp. of America	$2.4B (9/13)	14%	25.0%
Greif	$3.2B (7/13)	1%	18.8%
Bemis Company	$3.8B (9/13)	-2%	19.4%
Sealed Air Corp.	$5.8B (9/13)	1%	33.7%
UFP Technologies	$104.2M (9/13)	7%	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

The December 2012 acquisition of Packaging Alternatives Corporation (PAC) should be accretive to 2013 revenue by approximately $10.5 million, boosting revenue growth to 7%. Excluding sales from PAC, we project UFPT's organic sales growth would be down approximately 1% in 2013, in line with year-to-date results. This is a slight improvement over our previous projection of a 2% decline, as increased molded fiber sales (up $2.1 million year-to-date) and medical market sales (up $1.9 million year-to-date excluding PAC's contribution) partly offset the large decline in military sales (down $4 million year-to-date).

2013 Forecast

For 2013, we project revenue of $140.2 million and net income of $10.9 million or $1.53 per share. Our revenue projection is largely unchanged but projected net income of $10.6 million or $1.50 per share is lower, reflecting 3Q13 results. SG&A expenses should increase to $23.7 million from $21.5 million in 2012 due to increased sales and additional employees and expenses of Packaging Alternatives Corporation (acquired in December 2012). Gross margins will compress to 28.7% (versus 29.2% in 2012) due to lower-margin sales from PAC. Taxes are estimated at approximately 34% as the company receives a domestic production deduction which typically offsets state taxes.

In 2013, we project $13.5 million cash from operations consisting of cash earnings of $14.8 million and increases in working capital of $1.4 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $5.7 million to $39.2 million at the end of 2013.

2014 Forecast

For 2014, we project revenue of $150 million, unchanged from our previous projection. Our net income projection has increased slightly to $12.6 million, or $1.75 per share, due primarily to gross margin improvement to 29.2% (29% previously) driven by increased sales of higher-margin medical products. SG&A expenses should increase to $24.6 million from $23.7 million in 2013 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.4% 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 $15.4 million cash from operations consisting of cash earnings of $16.9 million and increases in working capital of $1.4 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $8.2 million to $47.4 million at the end of 2014.

3Q and Nine-Months 2013 Financial Results

3Q13 - Sales increased 9% to $34.7 million. Net income increased to $2.9 million or $0.41 per share from $2.6 million or $0.37 per share. We projected 3Q13 sales of $34.5 million and net income of $2.7 million or $0.38 per share.

The increase in sales was primarily due to an increase in sales to the medical industry and molded fiber packing sales, offset in part by a drop in 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) while molded fiber packaging sales benefited from continued demand for environmentally friendly packaging and the company's expanded capacity in this area. The decrease in sales to the defense market was due to government spending cuts.

Gross margins increased to 29.3% from 28.9% primarily due to increased higher-margin medical sales. SG&A expenses increased to $5.7 million from $5.2 million due primarily to PAC operations. The company showed an effective income tax rate of 35% in 3Q13.

Nine-Months 2013 - Sales increased 7% to $104.2 million. Net income increased to $7.9 million or $1.11 per share from $7.7 million or $1.09 per share.

The increase in sales was primarily due to an increase in sales to the medical industry and molded fiber packing sales, offset in part by a decline in 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) while molded fiber packaging sales benefited from continued demand for environmentally friendly packaging and the company's expanded capacity in this area. 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.

Income Statement
(in thousands $)

	9mos13A	9mos12A
Net sales	104,229	97,592
Cost of sales	74,446	69,474
Gross profit	29,783	28,118
Extraordinary items	11	(12)
SG&A	17,700	16,066
Operating income	12,072	12,064
Interest exp, other inc and exp	(128)	(45)
Income before taxes	11,944	12,019
Income tax	4,045	4,327
Net Income / (Loss)	7,899	7,692
EPS	1.11	1.09
Shares Outstanding	7,096	7,055
Margin Analysis		
Gross margin	28.6%	28.8%
SG&A	17.0%	16.5%
Operating margin	11.6%	12.4%
Tax rate	33.9%	36.0%
Year / Year Growth		
Total Revenues	6.8%	
Net Income	2.7%	
EPS	2.1%	

Source: Company filings

Gross margins decreased to 28.6% from 28.8% primarily due to the increased costs related to PAC sales and lower coverage of overhead in operations in existence prior to the acquisition of PAC. SG&A expenses increased to $17.7 million from $16.1 million primarily due to PAC operations. The company showed an effective income tax rate of 33.9% in the first nine months of 2013.

Liquidity

The company has a strong balance sheet. Long-term debt is $7.7 million, tangible equity is $72.8 million, and cash (approximately $5.55 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is 0.1 versus 1.4 for the industry.

Cash of $11.5 million from operations in the first nine months of 2013 consisted mainly of $11.6 million cash earnings. This cash covered capital expenditures of $5 million and $1.2 million used in financing activities, increasing cash by $4.8 million to $38.2 million as of September 30, 2013.

UFPT's available bank credit facilities are as follows: a $17 million revolving line of credit, a $2.1 million term loan, a $1.8 million term loan, and a $4 million term loan.

As of September 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 September 30, 2013. The interest rate on these facilities was 1.2% at September 30, 2013. UFPT said it is currently in the final stages of securing a new $40 million credit facility with Bank of America.

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 $4.1 million as of September 30, 2013. 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 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.

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 6.9 million shares outstanding and 5.2 million in the float, liquidity issues must be considered. Average daily volume has been approximately 20,000 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	9/13A	2013E	2014E
Cash and cash equivalents	22,103	29,849	33,479	38,233	39,171	47,415
Receivables	14,634	15,619	17,836	17,806	19,098	20,429
Inventories	8,044	9,758	9,695	9,897	10,443	11,098
Prepaid expenses	1,035	559	654	928	928	928
Refundable income taxes	1,414	1,086	1,714	-	1,698	1,974
Deferred income taxes	1,209	1,169	1,116	1,131	1,300	1,131
Total current assets	48,439	58,040	64,494	67,995	72,638	82,974
Net property, plant and equipment	12,575	13,346	23,318	25,676	26,513	29,454
Goodwill	6,481	6,481	7,039	7,322	7,322	7,322
Intangible assets	594	399	2,084	1,466	1,466	1,466
Other assets	1,389	1,455	1,682	1,881	1,881	1,881
Total assets	**69,478**	**79,721**	**98,617**	**104,340**	**109,820**	**123,097**
Current portion of long-term debt	654	581	1,550	1,552	1,552	1,552
Accounts payable	2,838	3,344	4,088	3,559	4,403	4,679
Accrued expenses	6,679	5,540	7,593	5,844	8,130	8,697
Total current liabilities	10,171	9,465	13,231	10,955	14,086	14,928
Long-term debt	6,847	5,639	8,314	7,736	7,314	6,314
Deferred income taxes	881	1,292	1,589	1,594	1,427	1,791
Other liabilities	1,352	1,340	2,222	2,464	2,464	2,464
Total liabilities	**19,251**	**17,736**	**25,356**	**22,749**	**25,291**	**25,497**
Total stockholders' equity	**50,227**	**61,985**	**73,261**	**81,591**	**84,530**	**97,600**
Total liabilities & stockholders' equity	**69,478**	**79,721**	**98,617**	**104,340**	**109,820**	**123,097**

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	140,229	150,000
Cost of sales	86,150	90,999	92,777	99,934	106,200
Gross profit	34,616	36,245	38,185	40,295	43,800
Extraordinary items	-	(839)	(12)	11	-
SG&A	20,236	21,368	21,531	23,700	24,550
Operating income	14,380	15,716	16,666	16,584	19,250
Non-operating expenses	46	(27)	(92)	(168)	(160)
Income before taxes	14,426	15,689	16,574	16,416	19,090
Income tax	5,019	4,906	5,679	5,566	6,491
Net Income / (Loss)	9,247	10,346	10,895	10,850	12,599
EPS	1.37	1.48	1.55	1.53	1.75
Shares Outstanding	6,757	6,999	7,028	7,110	7,213
Margin Analysis					
Gross margin	28.7%	28.5%	29.2%	28.7%	29.2%
SG&A	16.8%	16.8%	16.4%	16.9%	16.4%
Operating margin	11.9%	12.4%	12.7%	11.8%	12.8%
Pretax margin	11.9%	12.3%	12.7%	11.7%	12.7%
Tax rate	34.8%	31.3%	34.3%	33.9%	34.0%
Year / Year Growth					
Total Revenues	21.7%	5.4%	2.9%	7.1%	7.0%
Net Income	56.0%	11.9%	5.3%	(0.4)%	16.1%
EPS	45.3%	8.0%	4.9%	(1.6)%	14.5%

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	9/13A	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	34,700	36,000	140,229	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	24,538	25,488	99,934	25,913	27,293	25,913	27,081	106,200
Gross profit	9,201	9,691	9,226	10,067	38,185	8,902	10,719	10,162	10,512	40,295	10,687	11,257	10,687	11,169	43,800
Extraordinary items	(5)	(7)	-	-	(12)	-	11	-	-	11	-	-	-	-	-
SG&A	5,518	5,392	5,156	5,465	21,531	5,946	6,075	5,679	6,000	23,700	6,000	6,250	6,000	6,300	24,550
Operating income	3,688	4,306	4,070	4,602	16,666	2,956	4,633	4,483	4,512	16,584	4,687	5,007	4,687	4,869	19,250
Non-operating expenses	(17)	(14)	(14)	(47)	(92)	(40)	(45)	(43)	(40)	(168)	(40)	(40)	(40)	(40)	(160)
Income before taxes	3,671	4,292	4,056	4,555	16,574	2,916	4,588	4,440	4,472	16,416	4,647	4,967	4,647	4,829	19,090
Income tax	1,322	1,545	1,460	1,352	5,679	886	1,606	1,554	1,520	5,566	1,580	1,689	1,580	1,642	6,491
Net Income / (Loss)	2,349	2,747	2,596	3,203	10,895	2,030	2,982	2,886	2,952	10,850	3,067	3,278	3,067	3,187	12,599
EPS	0.33	0.39	0.37	0.45	1.55	0.29	0.42	0.41	0.41	1.53	0.43	0.46	0.42	0.44	1.75
Shares Outstanding	7,030	7,055	7,075	7,055	7,028	7,088	7,090	7,112	7,150	7,110	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%	29.3%	29.2%	28.7%	29.2%	29.2%	29.2%	29.2%	29.2%
SG&A	17.3%	16.0%	16.1%	16.4%	16.4%	17.6%	17.0%	16.4%	16.7%	16.9%	16.4%	16.2%	16.4%	16.5%	16.4%
Operating margin	11.5%	12.8%	12.7%	13.8%	12.7%	8.8%	12.9%	12.9%	12.5%	11.8%	12.8%	13.0%	12.8%	12.7%	12.8%
Pretax margin	11.5%	12.7%	12.7%	13.6%	12.7%	8.7%	12.8%	12.8%	12.4%	11.7%	12.7%	12.9%	12.7%	12.6%	12.7%
Tax rate	36.0%	36.0%	36.0%	29.7%	34.3%	30.4%	35.0%	35.0%	34.0%	33.9%	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%	8.5%	7.9%	7.1%	8.6%	7.6%	5.5%	6.3%	7.0%
Net Income	6.5%	1.7%	6.6%	6.6%	5.3%	(13.6)%	8.6%	11.2%	(7.9)%	(0.4)%	51.1%	9.9%	6.3%	8.0%	16.1%
EPS	5.6%	0.6%	5.5%	5.9%	4.9%	(14.3)%	8.0%	10.6%	(9.1)%	(1.6)%	49.3%	8.2%	4.6%	6.5%	14.5%

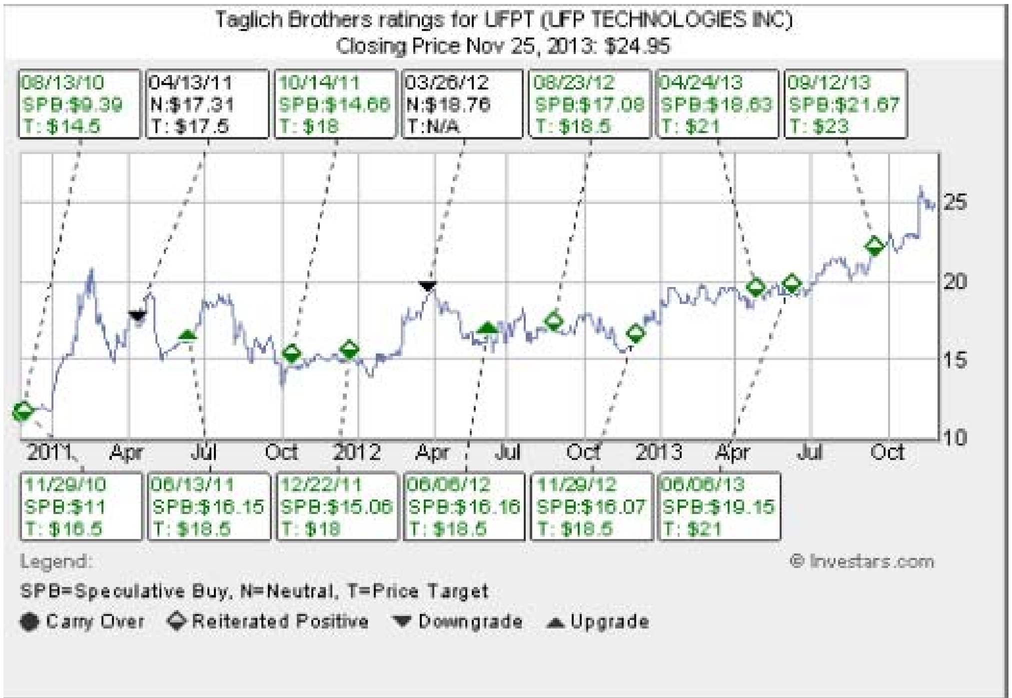
Source: Company filings and Taglich Brothers' estimates

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

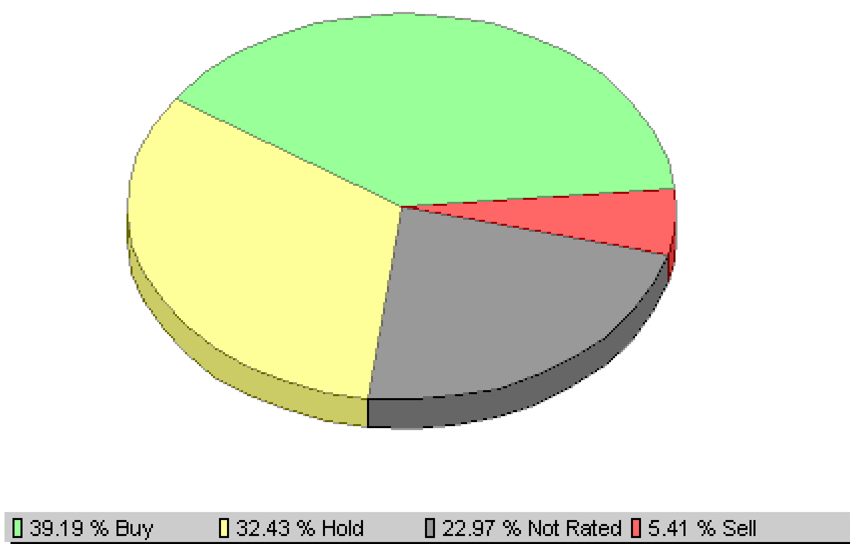
	2010A	2011A	2012A	9mos13A	2013E	2014E
Net income	9,407	10,784	10,895	7,899	10,850	12,599
Depreciation & amortization	3,152	2,781	2,928	2,982	3,240	3,559
Gain on acquisition	-	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(12)	(839)	(12)	11	11	-
Share-based compensation	964	1,089	860	707	950	1,000
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	(11)	604	533
Changes in assets and liabilities						
Receivables	(415)	(985)	(842)	30	(1,262)	(1,331)
Inventories	(397)	(1,714)	801	(202)	(748)	(655)
Prepaid expenses	(559)	476	(65)	(274)	(274)	-
Refundable income taxes	(1,414)	327	(695)	1,714	16	(276)
Accounts payable	161	507	384	(529)	315	276
Accrued expenses and other	1,381	(440)	2,143	(786)	537	567
Retirement and other liabilities	234	(12)	190	242	242	-
Other assets	(205)	(65)	(203)	(235)	(199)	-
Net Cash Provided by Operations	**11,828**	**11,716**	**16,162**	**11,540**	**13,450**	**15,440**
Additions to property, plant and equipment	(3,286)	(3,741)	(11,994)	(5,017)	(6,500)	(6,500)
Redemption of cash value life insurance	-	-	-	37	37	-
Proceeds from sale of property, plant and equipment	12	1,223	86	1	1	-
Acquisitions	-	-	(3,596)	(600)	(600)	-
Net Cash Used in Investing	**(3,274)**	**(2,518)**	**(15,504)**	**(5,579)**	**(7,062)**	**(6,500)**
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	8	832	832
Proceeds from exercise of stock options	507	250	365	334	445	445
Payment of statutory withholdings for stock options exercised	(485)	(830)	(672)	(974)	(974)	(974)
Principal repayments of long-term debt	(624)	(1,282)	(740)	(1,156)	(1,580)	(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**	**(1,208)**	**(697)**	**(697)**
Net Change in Cash	**8,701**	**7,747**	**3,631**	**4,753**	**5,691**	**8,243**
Cash - Beginning of Period	**13,401**	**22,102**	**29,849**	**33,480**	**33,480**	**39,171**
Cash - End of Period	**22,102**	**29,849**	**33,480**	**38,233**	**39,171**	**47,415**

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.