TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

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 29, 2012

UFPT $16.07 — (NASDAQ CM)

	2010A	2011A	2012E	2013E
Revenues (millions)	$120.8	$127.2	$130.9	$139.2
Earnings per share (diluted)	$1.37	$1.48	$1.43	$1.70

52-Week range	$19.96 – $13.94	Fiscal year ends:	December
Shares outstanding as of 11/1/12	6.7 million	Revenue per share (TTM)	$18.33
Approximate float	5.1 million	Price/Sales (TTM)	0.9X
Market capitalization	$108 million	Price/Sales (2013)E	0.8X
Tangible book value/share	$9.30	Price/Earnings (TTM)	10.6X
Price/tangible book	1.7X	Price/Earnings (2013)E	9.5X

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 original equipment manufacturers in the computer, electronics, automotive, medical/pharmaceutical and industrial markets. (www.ufpt.com)

Key investment considerations:

Reiterating Speculative Buy rating on UFP Technologies. Maintaining twelve-month price target of $18.50.

Industry research firm IBISWorld projects growth over the next five years for UFPT's principal end markets (medical equipment: 6.4% average annual growth rate, automotive: 3.3%, consumer electronics: 3.0%) driven by an aging population, increasing automotive demand, and innovative new electronics products.

The company expanded its molded fiber product line to accommodate heavier products (such as PC's) in the second half of 2012 and increased capacity to meet the strong demand for its molded fiber products.

The company's revenue growth has slowed over the past year due to the loss of a significant portion of a long-term automotive program. However, the projected growth of the automotive industry (averaging approximately 5% over the next two years) should help to offset in part the lost sales from this program.

We project 2012 revenue of $131.9 million, down from our previous projection of $131.9 million, to reflect 3Q12 results. Our EPS projection is lowered to $1.43 from $1.46 primarily due to a one-time restructuring charge associated with the Ventura, California plant consolidation.

Our projections for 2013 are largely unchanged.

UFPT reported 3Q12 (released 11/1/12) EPS of $0.37. We estimated 3Q12 EPS of $0.36.

Please view our disclosures on pages 13 - 15.

790 New York Avenue, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and maintaining a **twelve-month price target of $18.50 per share.**

From 2004 to 2011, UFPT traded at an average earnings multiple of 12X, higher than the current multiple of 11X making the stock attractive at these levels. As UFPT regains growth momentum in 2013, the market should accord the stock a multiple of 12X. Applying a multiple of 12X to our 2013 earnings of $1.70 per share discounted to a twelve-month value of $1.56 per share gives us a price target of approximately $18.50.

Recent Development

Plant consolidation - UFP Technologies plans to close its Ventura, California facility and consolidate operations at its Rancho Dominguez, California, and El Paso, Texas, facilities in 4Q12. The company expects to incur one-time, pre-tax restructuring charges of approximately $325,000 in 4Q12.

Business

Founded in 1963 and headquartered in Georgetown, Massachusetts, 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. 95% of UFPT's sales are to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the United States.

In 2009, the company completed three acquisitions, Foamade Industries, E.N. Murray, and Advanced Materials. Foamade specialized in the fabrication of technical urethane foams for a myriad of industries, and both E.N. Murray and Advanced Materials specialized in the fabrication of technical urethane foams primarily for the medical industry.

Components products accounted for 67% of sales in 2011 while packaging products comprised 33%. We believe that approximately 35% of total sales are to the medical device industry for applications such as compression-molded foam finger splints, orthopedic foam components, and dental fluoride trays. UFPT's other end markets (automotive, defense, electronics, and industrial) each account for an estimated 10% to 20% of the company's revenue.

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

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

The company differentiates itself through the design and production of customized foam case inserts for the automotive, computers and electronics, medical, aerospace and defense, consumer, and industrial markets (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.

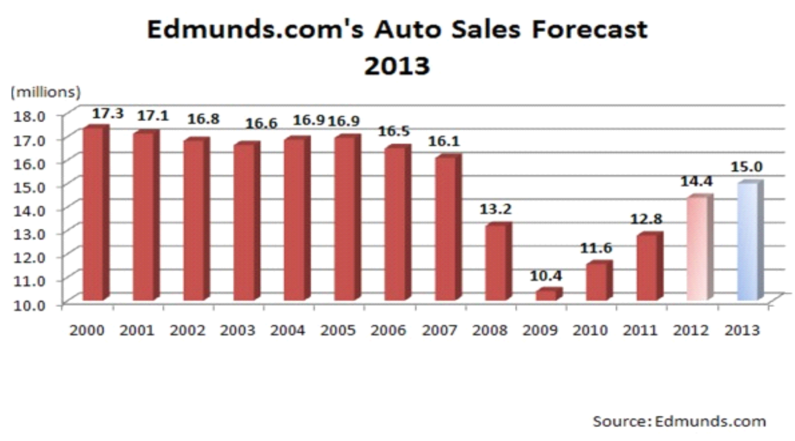
Industry Outlook

In December 2011, IBISWorld forecasted the urethane and foam products industry to grow at an average annual rate of 3.4% over the five years to 2016.

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. UFP Technologies fabricates products used for mammography pads, tool sterilization systems, and dental fluoride trays. 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.

Recent medical advancements have further boosted the size of the 65 and older age group, as superior nutrition and improved safety have Americans living longer than ever. However, a changing regulatory environment could slow the rate of growth for the medical device industry. For example, the FDA's impending 510(k) reform could increase regulatory costs and restrain innovation. One of the pathways that a new or significantly modified medical device must go through to be cleared for marketing in the US is an FDA regulatory review process known as the 510(k) premarket notification process. This differs from the FDA's more involved Premarket Approval (PMA) process which includes the submission of clinical data to support claims made for the device. The 510(k) process is typically involved with Class II (and some Class I) devices as opposed to the PMA process that is typically involved with Class III devices. Class III devices are high risk devices that pose a significant risk of illness or injury as opposed to lower risk Class I and moderate risk Class II devices. While reforming the current 510(k) process could slow that process down, the FDA in October 2012 issued new PMA guidance in an effort to speed up that review process.

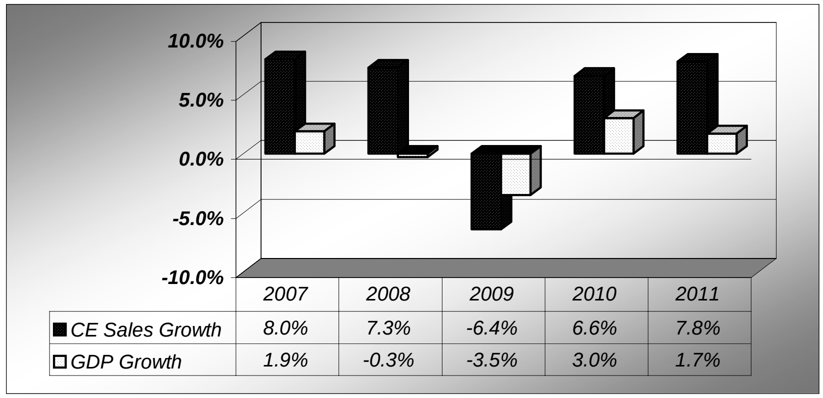
The current 510(k) process – which considers whether a device is substantially equivalent to a previously cleared device – is under recommendation by the Institute of Medicine (IOM) to be replaced with premarket and postmarket regulatory framework focused on whether a device is safe and effective throughout its life cycle. Although the IOM's recommendations are not binding, the FDA decided to modify the current process rather than start from scratch. One of the modifications that could be costly and burdensome for manufacturers of large or custom devices is a requirement for manufacturers to have one unit of a device available prior to receiving 510(k) clearance. This could force manufacturers to incur manufacturing costs without knowing whether a device will ultimately be cleared. In October 2012, IBISWorld forecasted medical device industry average annual sales growth of 6.4% to $88.2 billion during the five years to 2017, much slower than the 12.8% average annual growth in the five years to 2012 primarily due to a changing regulatory environment (510(k) reform and an excise tax on medical devices).



The automotive research firm Edmunds projects 2012 unit growth of 13% to 14.4 million autos sold in 2012. In November 2012, Edmunds said that Hurricane Sandy negatively affected October sales (down 3%) but that the majority of the lost sales should be made up in November. Also, November and December sales could receive a boost from buyers returning to the market to replace vehicles that were destroyed by the storm. Edmunds latest forecast (September 2012) said that pent-up demand for autos is strong and can be expected to continue to contribute to increased sales in 2012, given the aging fleet (average age of vehicle being approximately 11 years old) and current expansion of credit. However, Edmunds forecast for 2013 is for a slower rate of growth. Edmunds said that although sales growth will continue in 2013, the rate of growth will slow to 4% for sales of 15 million vehicles over the 14.4 million in 2012.

Economic uncertainty at home and the spillover effects from slowing economies abroad are the primary reasons for Edmunds slowing growth forecast. In October 2012, IBISWorld projected revenue growth of 4.8% in 2012 and 5% in 2013 for the US automobile industry. 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 International Monetary Fund (IMF) forecasts US GDP growth of 2.2% in 2012 and 2.1% in 2013. The chart at right shows how consumer electronics sales were affected by changes in the economy over the past five years.



In September 2012, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 3% to $93.7 billion during the five years to 2017. Driving this growth will be the introduction of innovative new technologies (like tablet computers and 3D displays) and renewed consumer spending. In October 2012, the US Census Bureau reported that new orders for computers and electronics were up 0.5% year-to-date. However, computer and electronics orders fell 2.5% in September. This follows a 4.8% decrease in August. 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 latest forecast (September 2012) from the market research firm TechNavio projects the global aerospace and defense market to grow at a compound annual growth rate of approximately 2.5% into 2015.

Economic Outlook

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

The global economic outlook has dimmed recently. In October 2012, the International Monetary Fund (IMF) lowered its projections for global economic growth to 3.3% in 2012 and 3.6% in 2013. These are down from earlier projections (July 2012) of 3.5% in 2012 and 3.9% in 2013. The ongoing debt crisis in Europe was a significant factor in the downward revision. The IMF cited risks such as failure to successfully recapitalize European banks or reduce the US deficit without drastic tax increases and spending cutbacks. The IMF projects a gradual recovery with growth weaker than previously anticipated.

The IMF revised its projections for US economic growth to 2.2% in 2012 and 2.1% in 2013. These are slightly changed from earlier projections (July 2012) of 2.1% in 2012 and 2.2% in 2013. A modest recovery was continuing but downside risks remain elevated. If US policy makers fail to reach consensus on extending tax cuts and reversing deep automatic spending cuts, the IMF projects the US economy could face a steep decline in 2013. If the decline is sustained, the US economy could fall into a recession.

As the company sells 95% of its products in the US, a slowing US economy could limit sales 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. In addition, the company's foam and fiber packaging products 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.

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

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

Some of UFPT's public competitors include Graphic Packaging ($3.3B nine-months 2012 sales, up 4% versus same period in 2011), Packaging Corp. of America ($2.1B nine-months 2012 sales, up 7%), Greif ($3.2B nine-months 2012 sales, up 2%), Bemis Company ($3.9B nine-months 2012 sales, down 4%), and Sealed Air Corp ($5.7B nine-months 2012 sales, up 58%). UFPT's margins are greater than that of most of its competitors. UFP Technologies' nine-months 2012 and 2011 gross margins were 28.8% and 28.5% respectively, versus 16.9% and 15.1% respectively for Graphic Packaging, 22.1% and 20.7% respectively for Packaging Corporation of America, 18.4% and 19.1% respectively for Grief, 18.2% and 17.1% respectively for Bemis, and 33.4% and 27% respectively for Sealed Air.

We believe that the reason for UFPT's greater margins compared to the industry is due to the company's ability to differentiate its products from competitors. 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

Over the past five years, UFPT's sales have grown at an average annual rate of 6%, slowing to 5% in 2011 due to the loss of a significant portion of a long-term automotive program that accounted for 9% of 2010 sales. During the past five years, GDP growth averaged 2.8% annually, slowing to 1.7% in 2011. We believe the company revenue will regain its historic revenue growth rate of 6% in 2013 as it launched a new door panel program for Cadillac ATS and XTS vehicles in the second half of 2012. This new program utilizes equipment that was formerly committed to the discontinued Mercedes program and recouped the lost sales related to that program (average of approximately $2 million per quarter) in the first full quarter of production (3Q12). Also, the company expanded its molded fiber product line to accommodate heavier products (such as PC's) in the second half of 2012 and increased capacity to meet the strong demand for its molded fiber products.

2012 Forecast

For 2012, we project revenue of $130.9 million and net income of $10.1 million or $1.43 per share. Recent results have resulted in a decrease in our revenue estimate (previously $131.9 million). The one-time 4Q12 $325,000 restructuring charge associated with the Ventura, California plant consolidation is primarily responsible for our lowered net income projection to $10.1 million or $1.43 per share (previously $10.3 million or $1.46 per share).

The higher than expected 3Q12 gross margin resulted in a slight increase to our gross margin forecast to 28.9% (previously 28.8%). SG&A expenses should increase to $21.6 million from $21.4 million with the increased business. SG&A margins should decrease to 16.5% (the margin for the first nine months of 2012) from 16.8% as sales outpace growth in SG&A expense. The effective tax rate is estimated at 36%.

In 2012, we project $14.6 million cash from operations, cash earnings of $15 million and an increase in working capital of $465,000. The increase in working capital is primarily due to a $454,000 increase in receivables. We project 44 days sales outstanding in 2012 and inventory turnover of 9X, both figures in line with 2011 actual numbers. We project $5 million of capital expenditures for new molded fiber equipment in addition to $5 million of other capital expenditures. Financing activities consist primarily of $4 million net proceeds from long term debt, and a $1.2 million distribution to United Development Company. We project an increase in cash of $7.6 million for a year end cash balance of $37.4 million.

2013 Forecast

For 2013, we project revenue of $139.2 million (previously $140 million) and net income of $12.2 million or $1.70 per share. Our net income projection remains largely unchanged. SG&A expenses are $200,000 lower than previously anticipated due to plant consolidation. Higher sales volume should increase overhead coverage, resulting in gross margins of 30.0% (versus 28.9% in 2012). SG&A expenses should increase to $22.8 million from $21.6 million as sales increase. SG&A margins are projected at 16.4%. Taxes are estimated at 36%.

In 2013, we project $16.2 million cash from operations, cash earnings of $17.4 million and increases in working capital of $1.2 million. The increase in working capital is primarily due to a $1 million increase in receivables, a $457,000 increase in inventories, and a $260,000 increase in other assets, offset in part by a $360,000 increase in accrued expenses and a $157,000 increase in accounts payable. We project 44 days sales outstanding in 2013 and inventory turnover of 9X, both figures in line with 2011 actual numbers and our 2012 estimates. We project $3.5 million of capital expenditures. Financing activities consist primarily of $5 million repayments of long-term debt. We project an increase in cash of $7.7 million for a year end cash balance of $45.1 million.

3Q and Nine Months Financial Results

3Q12 sales increased 4% to $32 million. Net income increased to $2.6 million or $0.37 per share. We projected 3Q12 sales of $32.8 million and net income of $2.6 million or $0.36 per share.

The increase in 3Q12 sales was primarily due to increased sales of $0.6 million to the medical industry as well as an increase of $0.5 million in sales of molded fiber packaging.

Gross margins increased to 28.9% from 27.6% primarily due to an improved mix of business as well as improved fixed overhead coverage. SG&A expenses remained relatively flat at $5.2 million.

The company showed an effective income tax rate of approximately 36% in 3Q12, up from 25% in 3Q11. The low tax rate in 3Q11 was due to the reversal of previously established reserves associated with a favorable outcome from an Internal Revenue Service audit.

Sales for the nine month period in FY12 increased 2% to $97.6 million. Net income increased 5% to $7.7 million or $1.09 per share from $7.3 million or $1.05 per share. The results for 2011 include a $0.8 million gain from the sale of real estate by an affiliated partnership, UDT. Of this $0.8 million gain, approximately $428,000 related to non-controlling interests that have been deducted to determine net income attributable to UFPT.

The increase in sales for the nine month period was primarily due to increased sales of $1.7 million to the medical industry as well as an increase of $2 million in sales of molded fiber packaging, partially offset by a $2 million decrease in sales to the automotive industry. The decline in sales to the automotive industry was largely due to the phase-out of a significant portion of a large door panel program (due to a redesigned model vehicle) which ended on June 30, 2011. The company still supplies door panels to the customer for other model vehicles. Sales of door panels for the discontinued model vehicle were approximately $4.0 million in the nine-month period ended September 30, 2011. Excluding the door panel program, sales grew 6.3%.

Income Statement
(in thousands $)

	9mos12A	9mos11A
Net sales	97,592	95,766
Cost of sales	69,474	68,477
Gross profit	28,118	27,289
Extraordinary items	(12)	(834)
SG&A	16,066	16,628
Operating income	12,064	11,495
Interest exp, other inc and exp	(45)	(19)
Income before taxes	12,019	11,476
Income tax	4,327	3,701
Income attrib. to noncontrol. interests	-	(433)
Net Income / (Loss)	7,692	7,342
EPS	1.09	1.05
Shares Outstanding	7,055	6,985
Margin Analysis		
Gross margin	28.8%	28.5%
SG&A	16.5%	17.4%
Operating margin	12.4%	12.0%
Tax rate	36.0%	32.2%
Year / Year Growth		
Total Revenues	1.9%	
Net Income	4.8%	
EPS	3.7%	

Source: Company filings

Gross margins increased to 28.8% from 28.5% primarily due to an improved mix of business partially offset by slightly higher overhead costs. SG&A expenses decreased to $16.1 million from $16.6 million primarily due to a $420,000 decrease in professional fees.

Excluding net income attributable to non-controlling interests, the company showed an effective income tax rate of approximately 36% in the first nine months of 2012, up from 32% in the comparable period in 2011. The low tax rate in 2011 was due to the reversal of previously established reserves associated with a favorable outcome from an Internal Revenue Service audit.

Liquidity

The company has a strong balance sheet. Long-term debt is $5.2 million, tangible equity is $62.6 million, and cash (approximately $4.63 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is 0.1 versus 1.2 for the industry.

Cash of $10.8 million from operations in the first nine months of 2012 consisted mainly of cash earnings of $10.5 million and a $336,000 decrease in working capital. The decrease in working capital was due primarily to a decrease in inventories and an increase in accrued taxes and accounts payable, partially offset by an increase in receivables. Capital expenditures were $8 million. A $1.2 million distribution to UDT and a $0.7 million payment of statutory withholdings for stock options exercised accounted for most of the cash used in financing activities. The net result was a $1.3 million increase in cash to $31.2 million as of September 30, 2012.

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

As of September 30, 2012, 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, 2012. The interest rate on these facilities was 1.2% at September 30, 2012.

Subsequent to 3Q12, UFPT entered into a $5 million loan agreement to finance the purchase of two new 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 2011. A single automotive program accounted for approximately 7% of total sales in 2011. A substantial portion of this program was phased out in 2011.

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 6.7 million shares outstanding and 5.1 million in the float, liquidity issues must be considered. Average daily volume has been approximately 13,500 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.

Year End Balance Sheets
(in thousands $)

	2010A	2011A	9/12A	2012E	2013E
Cash and cash equivalents	22,103	29,849	31,155	37,399	45,078
Receivables	14,634	15,619	16,968	16,073	17,087
Inventories	8,044	9,758	9,019	9,989	10,446
Prepaid expenses	1,035	559	597	600	600
Refundable income taxes	1,414	1,086	799	1,065	1,065
Deferred income taxes	1,209	1,169	1,250	1,200	1,200
Total current assets	48,439	58,040	59,788	66,326	75,475
Net property, plant and equipment	12,575	13,346	19,401	19,811	19,411
Goodwill	6,481	6,481	6,481	6,481	6,481
Intangible assets	594	399	275	234	69
Other assets	1,389	1,455	1,583	1,583	1,583
Total assets	**69,478**	**79,721**	**87,528**	**94,435**	**103,019**
Current portion of long-term debt	654	581	581	581	581
Accounts payable	2,838	3,344	3,645	3,423	3,580
Accrued expenses	6,679	5,540	5,631	5,701	6,061
Total current liabilities	10,171	9,465	9,857	9,705	10,221
Long-term debt	6,847	5,639	5,203	9,639	4,639
Deferred income taxes	881	1,292	1,519	1,336	924
Other liabilities	1,352	1,340	1,576	1,600	1,600
Total liabilities	**19,251**	**17,736**	**18,155**	**22,280**	**17,384**
Total stockholders' equity	**50,227**	**61,985**	**69,373**	**72,155**	**85,635**
Total liabilities & stockholders' equity	**69,478**	**79,721**	**87,528**	**94,435**	**103,019**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2009A	2010A	2011A	2012E	2013E
Net sales	99,231	120,766	127,244	130,942	139,200
Cost of sales	72,512	86,150	90,999	93,153	97,412
Gross profit	26,719	34,616	36,245	37,790	41,788
Extraordinary items	-	-	(839)	313	-
SG&A	18,539	20,236	21,368	21,566	22,800
Operating income	8,180	14,380	15,716	15,911	18,988
Interest exp, other inc and exp	618	46	(27)	(70)	-
Income before taxes	8,798	14,426	15,689	15,841	18,988
Income tax	2,817	5,019	4,906	5,703	6,836
Income attrib. to noncontrol. interests	(52)	(160)	(437)	-	-
Net Income / (Loss)	5,929	9,247	10,346	10,138	12,152
EPS	0.94	1.37	1.48	1.43	1.70
Shares Outstanding	6,294	6,757	6,999	7,065	7,163
Margin Analysis					
Gross margin	26.9%	28.7%	28.5%	28.9%	30.0%
SG&A	18.7%	16.8%	16.8%	16.5%	16.4%
Operating margin	8.2%	11.9%	12.4%	12.2%	13.6%
Pretax margin	8.9%	11.9%	12.3%	12.1%	13.6%
Tax rate	32.0%	34.8%	31.3%	36.0%	36.0%
Year / Year Growth					
Total Revenues	-9.8%	21.7%	5.4%	2.9%	6.3%
Net Income	15.9%	56.0%	11.9%	(2.0)%	19.9%
EPS	15.3%	45.3%	8.0%	(2.9)%	18.2%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2011 -2013E
(in thousands $)

	3/11A	6/11A	9/11A	12/11A	2011A	3/12A	6/12A	9/12A	12/12E	2012E	3/13E	6/13E	9/13E	12/13E	2013E
Net sales	31,504	33,501	30,762	31,477	127,244	31,952	33,673	31,967	33,350	130,942	33,400	34,800	34,800	36,200	139,200
Cost of sales	22,702	23,498	22,278	22,522	90,999	22,751	23,982	22,741	23,679	93,153	23,714	24,360	24,360	24,978	97,412
Gross profit	8,802	10,003	8,484	8,955	36,245	9,201	9,691	9,226	9,672	37,790	9,686	10,440	10,440	11,222	41,788
Extraordinary items	(834)	-	-	(5)	(839)	(5)	(7)	-	325	313	-	-	-	-	-
SG&A	5,726	5,686	5,220	4,739	21,368	5,518	5,392	5,156	5,500	21,566	5,500	5,700	5,700	5,900	22,800
Operating income	3,910	4,317	3,264	4,221	15,716	3,688	4,306	4,070	3,847	15,911	4,186	4,740	4,740	5,322	18,988
Interest exp, other inc and exp	2	(12)	(6)	(8)	(27)	(17)	(14)	(14)	(25)	(70)	(15)	(5)	5	15	-
Income before taxes	3,912	4,305	3,258	4,213	15,689	3,671	4,292	4,056	3,822	15,841	4,171	4,735	4,745	5,337	18,988
Income tax	1,279	1,603	819	1,205	4,906	1,322	1,545	1,460	1,376	5,703	1,502	1,705	1,708	1,921	6,836
Income attrib. to noncontrol. interests	(428)	-	(4)	(4)	(437)	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	2,205	2,702	2,435	3,004	10,346	2,349	2,747	2,596	2,446	10,138	2,669	3,030	3,037	3,416	12,152
EPS	0.32	0.39	0.35	0.43	1.48	0.33	0.39	0.37	0.34	1.43	0.37	0.42	0.42	0.47	1.70
Shares Outstanding	6,969	6,982	6,999	7,010	6,999	7,030	7,055	7,075	7,100	7,065	7,125	7,150	7,175	7,200	7,163
Margin Analysis															
Gross margin	27.9%	29.9%	27.6%	28.4%	28.5%	28.8%	28.8%	28.9%	29.0%	28.9%	29.0%	30.0%	30.0%	31.0%	30.0%
SG&A	18.2%	17.0%	17.0%	15.1%	16.8%	17.3%	16.0%	16.1%	16.5%	16.5%	16.5%	16.4%	16.4%	16.3%	16.4%
Operating margin	12.4%	12.9%	10.6%	13.4%	12.4%	11.5%	12.8%	12.7%	11.5%	12.2%	12.5%	13.6%	13.6%	14.7%	13.6%
Pretax margin	12.4%	12.9%	10.6%	13.4%	12.3%	11.5%	12.7%	12.7%	11.5%	12.1%	12.5%	13.6%	13.6%	14.7%	13.6%
Tax rate	32.7%	37.2%	25.1%	28.6%	31.3%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Year / Year Growth															
Total Revenues	9.8%	11.8%	1.0%	(0.5)%	5.4%	1.4%	0.5%	3.9%	6.0%	2.9%	4.5%	3.3%	8.9%	8.5%	6.3%
Net Income	45.9%	18.4%	3.0%	(2.8)%	11.9%	6.5%	1.7%	6.6%	(18.6)%	(2.0)%	13.6%	10.3%	17.0%	39.7%	19.9%
EPS	39.1%	14.0%	(0.2)%	(4.6)%	8.0%	5.6%	0.6%	5.5%	(19.6)%	(2.9)%	12.1%	8.9%	15.4%	37.7%	18.2%

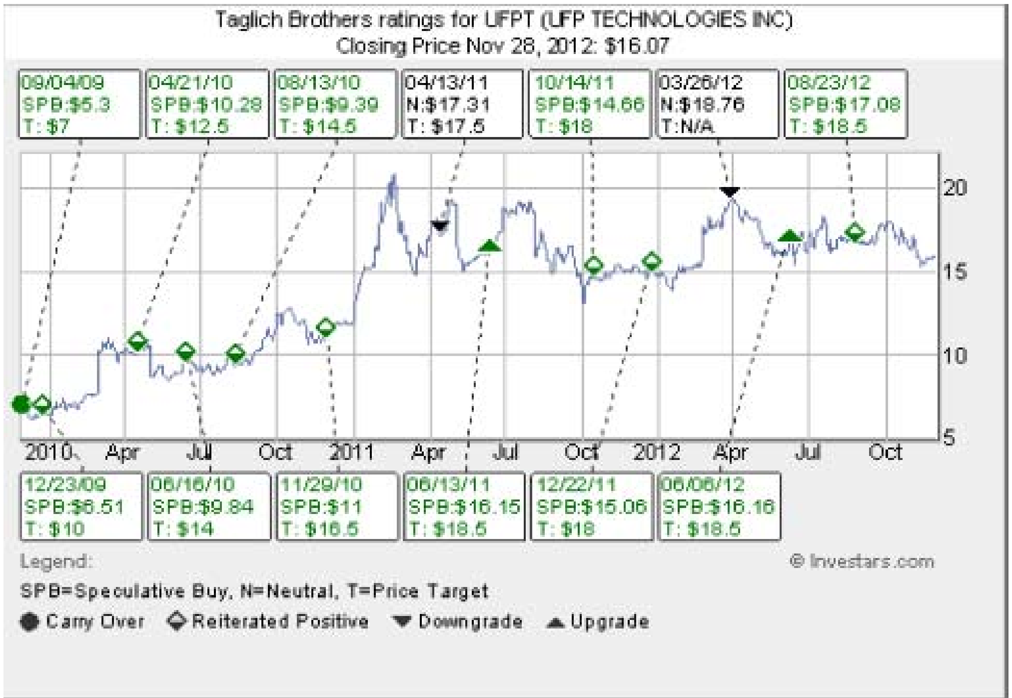
Source: Company filings and Taglich Brothers' estimates

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

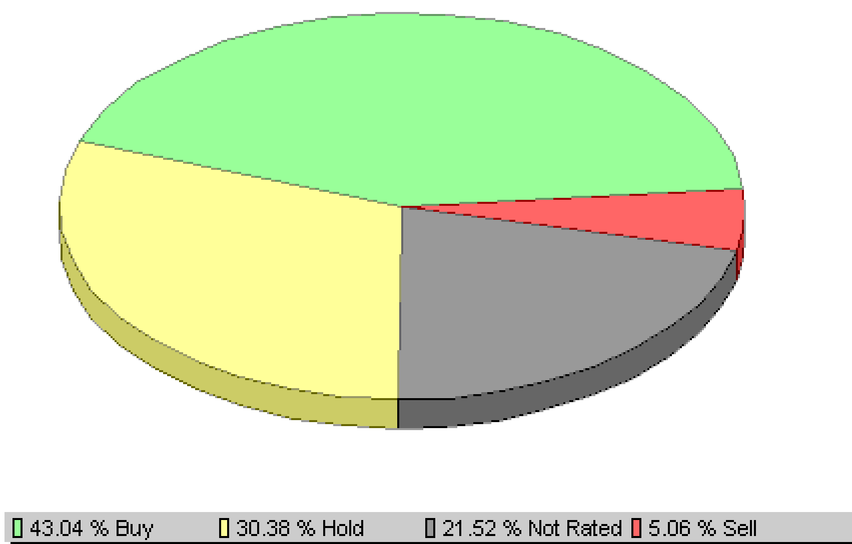
	2010A	2011A	9mos2012A	2012E	2013E
Net income	9,407	10,784	7,692	10,138	12,152
Depreciation & amortization	3,152	2,781	2,118	3,700	3,900
Gain on acquisition	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(12)	(839)	(12)	(12)	-
Share-based compensation	964	1,089	679	1,100	1,200
Stock issued in lieu of compensation	79	55	-	100	100
Excess tax benefit on share-based compensation	(854)	(700)	(328)	(437)	(437)
Deferred income taxes	306	452	338	450	450
Changes in assets and liabilities					
Receivables	(415)	(985)	(1,349)	(454)	(1,014)
Inventories	(397)	(1,714)	739	(231)	(457)
Prepaid expenses	(559)	476	(38)	(41)	-
Refundable income taxes	(1,414)	327	288	21	-
Accounts payable	161	507	300	79	157
Accrued expenses and other	1,381	(440)	419	161	360
Retirement and other liabilities	234	(12)	236	260	-
Other assets	(205)	(65)	(260)	(260)	(260)
Net Cash Provided by Operations	**11,828**	**11,716**	**10,822**	**14,574**	**16,151**
Additions to property, plant and equipment	(3,286)	(3,741)	(8,049)	(10,000)	(3,500)
Redemption of cash value life insurance	-	-	132	132	-
Proceeds from sale of property, plant and equipment	12	1,223	12	12	-
Acquisitions	-	-	-	-	-
Net Cash Used in Investing	**(3,274)**	**(2,518)**	**(7,905)**	**(9,856)**	**(3,500)**
Proceeds from long-term borrowings	-	-	-	5,000	-
Distribution to United Development Company partners	(105)	(289)	(1,196)	(1,196)	-
Tax benefit from exercise of non-qualified stock options	854	700	328	437	437
Proceeds from exercise of stock options	507	250	365	487	487
Payment of statutory withholdings for stock options exercised	(485)	(830)	(672)	(896)	(896)
Principal repayments of long-term debt	(624)	(1,282)	(436)	(1,000)	(5,000)
Principle repayments of capital lease obligations	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**147**	**(1,451)**	**(1,611)**	**2,832**	**(4,972)**
Net Change in Cash	**8,701**	**7,747**	**1,306**	**7,550**	**7,679**
Cash - Beginning of Period	**13,401**	**22,102**	**29,849**	**29,849**	**37,399**
Cash - End of Period	**22,102**	**29,849**	**31,155**	**37,399**	**45,078**
Cash Flow from Operations	11,828	11,716	10,822	14,574	16,151
Capital Expenditures	(3,286)	(3,741)	(8,049)	(10,000)	(3,500)
Free Cash Flow	8,542	7,975	2,773	4,574	12,651

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		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. Since February 2000, the company has paid a monthly monetary fee of $1,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

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

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 due to acquisition of the company, 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.