

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

December 14, 2006

UFPT \$4.89 — (NASDAQ CM)

	FY (2004)A	FY (2005)A	FY (2006)E	FY (2007)E
Revenues (millions)	\$68.6	\$84.0	\$93.9	\$99.0
Earnings per share (diluted)	\$0.17	\$0.13	\$0.42	\$0.58
52-Week range	\$2.17 – \$7.99			Fiscal year ends: December
Shares outstanding	5.2 million			Revenue per share (TTM) \$17.25
Approximate float	2.8 million			Price/Sales (TTM) 0.3X
Market capitalization	\$25 million			Price/Sales (2007)E 0.3X
Tangible book value/share	\$2.17			Price/Earnings (TTM) 12.9X
Price/tangible book	2.3X			Price/Earnings (2007)E 8.4X

UFP Technologies is a designer and manufacturer of a broad range of high performance cushion packaging and molded fiber products and specialty foam and plastic products. These products are custom designed and fabricated or molded to provide protection for fragile and valuable items, and are sold primarily to original equipment manufacturers in the computer, electronics, automotive, medical/pharmaceutical and industrial markets. (www.ufpt.com)

Key investment considerations:

We are reiterating our Buy rating for shares of UFP Technologies (NASDAQ CM: UFPT) as we believe the recent decline in the stock price creates an attractive investment opportunity, especially when one considers that the third quarter results were partially affected by a one month gap in the renewal of a military related contract. We are decreasing our twelve-month price target to \$8.50 from \$10.00 due to a valuation on lowered earnings estimates.

For the third quarter ended September 30, 2006 versus the same period in 2005: net sales remained relatively flat at \$21.7 million. Net income was \$0.4 million or \$0.07 per diluted share versus a net loss of \$0.1 million or \$(0.03) per share.

UFPT's military sales have recently been on the increase, however, UFPT's third quarter sales were affected by a one month gap between military related contracts. We believe that sales from this area will be back on track in the fourth quarter. We also believe that sales related to automotive contracts will slow in the fourth quarter as the industry typically shuts down during the holiday season.

For fiscal 2006, we estimate UFPT's sales will increase by 12% to \$93.9 million and the Company will report net income of \$2.3 million or \$0.42 per diluted share. Previous estimates for fiscal 2006 called for sales of \$99.9 million and net income of \$2.9 million or \$0.53 per diluted share.

For fiscal 2007, we estimate UFPT's sales will increase by 5% to \$99.0 million and the Company will report net income of \$3.3 million or \$0.58 per diluted share. Previous estimates for fiscal 2007 called for sales of \$105.2 million and net income of \$3.9 million or \$0.68 per diluted share.

**Please view our disclaimer located on page 9.*

Business

The Company operates in two segments: Packaging Products and Component Products.

UFP Technologies' packaging products are used to contain, display and/or protect manufactured goods during shipment, handling, storage, marketing and use. The interior cushion packaging market is characterized by three primary sectors: (1) custom fabricated or molded products for low volume, high fragility products; (2) molded or die-cut products for high volume, industrial and consumer goods; and (3) loose fill and commodity packaging materials for products which do not require custom-designed packaging. Examples of the Company's packaging products include end-cap packs for computers, corner blocks for telecommunications consoles, anti-static foam packs for printed circuit boards, die-cut inserts for attaché cases and plastic trays for medical devices and components.

The Company's component products segment features specialty foam and plastic products that are sold primarily to customers in the automotive, sporting goods, medical, beauty, leisure and footwear industries. These products include components for automobiles and medical diagnostic equipment, abrasive nail files and anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

Industry

According to the packaging industry Website, packaging-gateway.com, the global packaging industry was worth an estimated \$424 billion in 2004 and is projected to grow to almost \$600 billion by 2014 for a compound annual growth rate of 3.5%. Driving this growth is stringent legislation, increasing competition and dynamic new markets that are forcing packaging executives to develop and manufacture innovative packaging more quickly, effectively and profitability than before.

Freedonia Group (a publisher of industry market research) recently forecasted demand for certain markets that UFP Technologies operates in. In May 2006, Freedonia forecasted the U.S. protective packaging market to grow by 4.7% annually to \$4 billion by 2010. Freedonia said that advances will be driven by specialized packaging applications in the electronic, medical and other industries, as well as growing Internet-based sales. Molded foam is estimated to remain dominant as a result of its shock and vibration dampening characteristics and ability to be custom molded to protect sensitive electronic and other equipment.

3rd Quarter Financial Results

For the third quarter ended September 30, 2006, versus the same period in 2005:

- Net sales remained relatively flat at \$21.7 million.
- Gross margins increased to 19.2% from 14.3%.
- SG&A expenses increased to \$3.3 million from \$3.1 million.
- Net income was \$0.4 million or \$0.07 per diluted share versus a net loss of \$0.1 million or \$(0.03) per share.

In comparison, Taglich Brothers' estimates called for third quarter net sales of \$25.0 million and net income of \$0.8 million or \$0.14 per diluted share.

The Company said that third quarter net sales were affected by its customer's seasonal summer shutdowns, softer automotive demand, and a gap of approximately one month between military related contract periods.

The increase in gross margins was primarily due to reduced scrap rates and labor costs associated with the Company's Michigan based automotive operations. Both of these costs were excessive in the comparable period in 2005 as a result of the launching of several new sunshade programs.

SG&A expenses increased primarily due to increased expenses associated with the new automotive program in the southeast, increased sales and marketing expenses including higher sales commissions, and increased public company compliance expenses.

Balance Sheet as of September 30, 2006

Cash and cash equivalents was approximately \$0.2 million. UFP Technologies used a good portion (\$6.0 million) of its positive cash flow for the year to pay down its notes payable balance. The Company had working capital of \$6.3 million, a tangible book value of \$2.17 per share and a long-term debt-to-equity ratio of 0.3X. Cash provided by operations during the first nine months of fiscal 2006 was approximately \$8.5 million. UFPT had an available balance under its line of credit of approximately \$11.4 million. We believe that UFPT's current line of credit and future expected cash flows from operations will be sufficient to fund operations for the next twelve months.

Discussion and Analysis

During 2005, the Company absorbed costs associated with the launch of several new programs in its automotive operations in Michigan, as well as in its large, estimated, 8 year, \$95 million program in the Southeast that caused significant losses in its automotive business unit. These costs were in the form of higher than anticipated scrap rates and additional direct labor requirements that caused significant losses in this business unit. However, robust demand in the remaining markets that the Company serves generated sufficient profits to more than absorb these losses. Particularly strong demand for UFPT's products was in the military and medical markets. The high scrap rates and excessive direct labor improved dramatically by the end of 2005 and throughout the nine-month period ended September 30, 2006. Accordingly, operating results within the automotive business unit were materially better in the first nine months of 2006.

In April 2006, UFP Technologies announced the acquisition of substantially all of the assets of Stephen Packaging Corporation, a fabricator of custom foam packaging solutions in Miami, Florida, for approximately \$0.3 million. We view this acquisition as a strategic move for the Company as it brings the Company a book of business of approximately \$1 million and Management believes it fits very well with UFPT's existing capabilities in Florida.

We continue to believe that UFP Technologies is in a position to grow by acquisition. In its latest earnings release, R. Jeffrey Bailly, President and CEO of UFP Technologies, said that the Company's strong cash flow had allowed it to pay down debt and as a result, UFPT has stepped up its search for strategic acquisition candidates. Further, the Company remains committed to its two-pronged growth strategy of internal growth driven by highly focused sales and marketing efforts and growth through acquisitions.

Projections

We were surprised to see seasonality as a factor that negatively impacted UFPT's third quarter results, especially when one considers that the Company believes that it experiences increased sales in the second half of the year (as mentioned in the latest 10-K filing with the SEC). We believe that seasonality (related to automotive sales) will play a part in UFPT's fourth quarter sales, as component product sales which historically averaged approximately 50% of total sales, averaged approximately 60% of total sales for the three and nine months ended September 30, 2006.

Although UFPT does not break out the level of sales within its segments, we believe that automotive sales are contributing a larger percentage to total component sales when one considers the magnitude of recent automotive contracts. With that said, we believe that sales related to automotive contracts will slow in the fourth quarter as the industry typically shuts down during the holiday season. Our estimates are made with the assumption that the \$95 million automotive program discussed earlier will continue to operate at full rate production in 2006 and beyond.

Military sales have recently been on the increase, and UFPT's third quarter sales were affected by a one month gap between military related contracts. We believe that sales from this area will be back on track in the fourth quarter. Further, Management said in its third quarter earnings release that new military contract sales have begun and overall sales activity has increased, positioning the Company to achieve record operating results in 2006.

For fiscal 2006, we estimate UFPT's sales will increase by 12% to \$93.9 million and the Company will report net income of \$2.3 million or \$0.42 per diluted share. Previous estimates for fiscal 2006 called for sales of \$99.2 million and net income of \$2.9 million or \$0.53 per diluted share. We have decreased our fourth quarter and fiscal 2006 estimates primarily due to the lower than expected third quarter results and a greater impact on overall sales coming from the automotive industry.

For fiscal 2007, we estimate UFPT's sales will increase by 5% to \$99.0 million and the Company will report net income of \$3.3 million or \$0.58 per diluted share. Previous estimates for fiscal 2007 called for sales of \$105.2 million and net income of \$3.9 million or \$0.68 per diluted share. We have decreased our fiscal 2007 estimates to a growth rate that is inline with the industry until we see reason to believe that the Company will grow faster than the industry.

Risks

Large Contract

The Company has a large automotive contract that could be worth as much as \$95 million. The \$95 million revenue value is an estimate, based on the automotive supplier's projected needs. UFP Technologies cannot guarantee that it will fully benefit from this contract, which is terminable by the automotive supplier for any reason. The Company's revenues from this contract are directly dependent on the ability of the automotive supplier to develop, market, and sell its products in a timely, cost-effective manner. If the automotive supplier's needs decrease over the course of the contract, UFP Technologies' estimated revenues from this contract may also decrease. Even if the Company generates revenue from the project, it cannot guarantee that the project will be profitable, particularly if revenues from the contract are less than expected.

Competition

The packaging and specialty foam products industry is highly competitive. The Company's foam and fiber packaging products compete against other alternative products made from materials such as expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles and foam-in-place urethane. UFP Technologies also faces competition in the specialty foam products area from smaller companies that typically concentrate on production for specific industries.

Patents and other proprietary rights

The Company relies upon trade secret, patent protection and trademarks to protect its technology and proprietary rights. UFP Technologies has three U.S. patents relating to its molded fiber technology (including certain proprietary machine designs), and has patent applications pending with respect to such technology in certain foreign countries and international patent offices. The Company also has a total of twelve U.S. patents relating to technologies including foam and packaging, rubber mat, patterned nail file, and superforming process technologies. In addition, UFP Technologies has patent applications pending in the United States with respect to superforming products and processes. There can be no assurance that any of the Company's patent applications will be granted, or that any patent or patent application will provide significant protection for the Company's products and technology, or will not be challenged or circumvented by others.

Environmental Considerations

In addition to offering molded fiber packaging products made from recycled paper derived primarily from post-consumer newspaper waste, UFP Technologies actively promotes its philosophy of reducing product volume and resulting post-user product waste. The Company designs products to provide optimum performance with minimum material. In addition, UFP Technologies actively participates in a recovery and reuse program for certain of its plastic packaging products. The Company is aware of public support for environmentally responsible packaging and other products. Future government action may impose restrictions affecting the industry in which the Company operates. There can be no assurance that any such action will not adversely impact UFP Technologies' products and business.

Other risks include:

- i. economic conditions that affect sales of the products of the Company's packaging customers,
- ii. actions taken by the Company's competitors and the ability of the Company to respond to such actions,
- iii. the ability of the Company to obtain new customers, and
- iv. the ability of the Company to execute and integrate favorable acquisitions.

Share-based compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R) "Share-Based Payment". SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant. Pro forma disclosure is no longer an alternative. SFAS 123(R) is effective for public companies at the beginning of the first fiscal year beginning after June 15, 2005.

UFP Technologies adopted SFAS 123(R) in the first quarter of fiscal 2006 and believes the effect will be comparable to the pro forma effect it has shown in the past. For fiscal 2005, UFP Technologies' pro forma stock-based compensation expense was \$0.553 million or \$0.11 per diluted share. In the first nine months of fiscal 2006, UFP Technologies recorded stock-based compensation expense of \$0.282 million or \$0.05 per diluted share.

Federal Reserve

Since mid 2004, the Federal Reserve has raised short-term interest rates 17 times. Investors need to be aware that such a monetary policy is theoretically bad news for equity prices and valuations.

Liquidity

With only 5.2 million shares outstanding and 2.8 million in the float, liquidity issues must be considered. Average daily volume is approximately 50,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

Miscellaneous risks

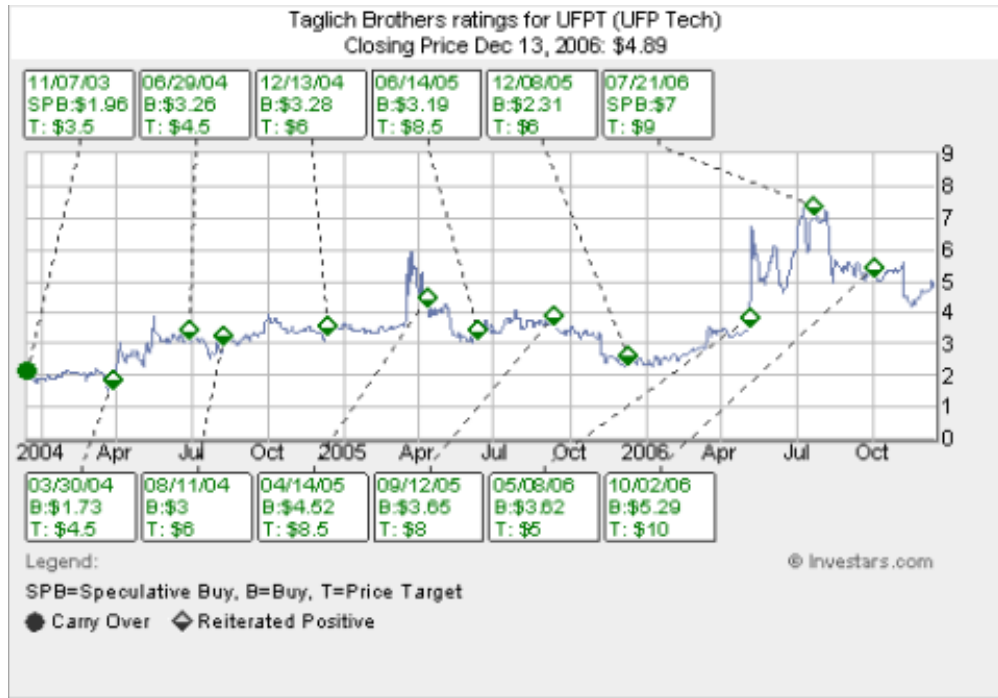
The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Conclusion and Valuation

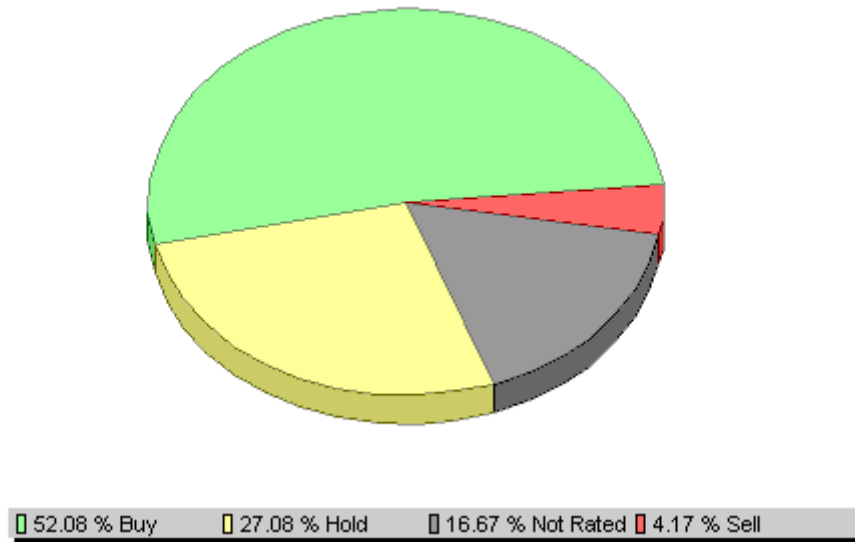
We are reiterating our **Buy** rating for shares of UFP Technologies (NASDAQ CM: UFPT). Although UFPT's third quarter results were less than we expected, we believe the recent decline in the stock price creates an attractive investment opportunity, especially when one considers that the third quarter results were partially affected by a one month gap in the renewal of a military related contract. Management said that the new military contract has now begun and overall sales activity has increased.

We chose to value shares of UFPT using a multiple of 15X applied to our discounted fiscal 2007 earnings per diluted share estimate of \$0.57 (our fiscal 2007 EPS estimate of \$0.58 was discounted to a twelve-month value using the Capital Asset Pricing Model with a discount factor of 7%). We believe the stock will trade at a higher earnings multiple than its historic rate (12X) given the strong rate of growth in earnings we project (approximately 40% in 2007 versus negative growth over the past five years). With this model we arrive at a **twelve-month price target of approximately \$8.50 per share.**

UFP Technologies, Inc.



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	3.33%
Hold	0	0
Sell	0	0
Not Rated	1	7.69%

Taglich Brothers, Inc.

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.

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.

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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.

UFP Technologies, Inc.

Consolidated Balance Sheets
(in thousands)

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 182	\$ 265
Receivables	12,717	15,300
Inventories	5,960	6,441
Prepaid expenses and other	<u>965</u>	<u>1,574</u>
Total current assets	19,824	23,580
Net property, plant and equipment	10,343	10,973
Goodwill	6,481	6,481
Other assets	<u>3,127</u>	<u>2,966</u>
Total Assets	<u>\$ 39,775</u>	<u>\$ 44,000</u>
Liabilities & stockholders' equity		
Current liabilities:		
Notes payable	\$ 1,966	\$ 7,991
Current portion of long-term debt	1,080	1,087
Current portion of capital lease obligations	687	639
Accounts payable	5,109	6,063
Accrued taxes and other expenses	<u>4,685</u>	<u>4,480</u>
Total current liabilities	13,527	20,260
Long-term debt	4,775	5,286
Capital lease obligations	2,521	2,363
Minority interest	615	634
Other liabilities	<u>700</u>	<u>696</u>
Total liabilities	22,138	29,239
Total stockholders' equity	<u>17,637</u>	<u>14,761</u>
Total liabilities & stockholders' equity	<u>\$ 39,775</u>	<u>\$ 44,000</u>

UFP Technologies, Inc.

Annual Income Statements for the Years Ended
(in thousands)

	<u>FY(12/03)A</u>	<u>FY(12/04)A</u>	<u>FY(12/05)A</u>	<u>FY(12/06)E</u>	<u>FY(12/07)E</u>
Net sales	\$ 60,902	\$ 68,624	\$ 83,962	\$ 93,912	\$ 99,000
Cost of sales	<u>50,178</u>	<u>54,653</u>	<u>69,361</u>	<u>74,633</u>	<u>77,585</u>
Gross profit	10,724	13,971	14,601	19,279	21,415
<i>Gross Margin</i>	17.61%	20.36%	17.39%	20.53%	21.63%
Restructuring charge	1,405	(280)	-	-	-
SG&A	<u>10,827</u>	<u>12,106</u>	<u>12,431</u>	<u>14,422</u>	<u>14,850</u>
Operating income	(1,508)	2,145	2,170	4,857	6,565
<i>Operating Margin</i>	-2.48%	3.13%	2.58%	5.17%	6.63%
Interest expense, other income and expenses	<u>(847)</u>	<u>(786)</u>	<u>(1,303)</u>	<u>(1,129)</u>	<u>(1,200)</u>
Income before taxes	(2,355)	1,359	867	3,728	5,365
Income tax	<u>(839)</u>	<u>488</u>	<u>208</u>	<u>1,416</u>	<u>2,039</u>
<i>Tax rate</i>	35.63%	35.91%	23.99%	37.98%	38.01%
Net Income / (Loss)	<u>\$ (1,516)</u>	<u>\$ 871</u>	<u>\$ 659</u>	<u>\$ 2,312</u>	<u>\$ 3,326</u>
Basic EPS	<u>\$ (0.34)</u>	<u>\$ 0.19</u>	<u>\$ 0.14</u>	<u>\$ 0.46</u>	<u>\$ 0.65</u>
Diluted EPS	<u>\$ (0.34)</u>	<u>\$ 0.17</u>	<u>\$ 0.13</u>	<u>\$ 0.42</u>	<u>\$ 0.58</u>
Basic Shares Outstanding	4,490	4,617	4,798	5,012	5,100
Diluted Shares Outstanding	4,490	4,995	5,261	5,556	5,700
<u>Percent of Revenue</u>					
Cost of goods sold	82.39%	79.64%	82.61%	79.47%	78.37%
SG&A	17.78%	17.64%	14.81%	15.36%	15.00%
<u>Year / Year Growth</u>					
Total Revenues	-0.47%	12.68%	22.35%	11.85%	5.42%
Net Income	NA	157.45%	-24.34%	250.83%	43.86%
EPS	NA	151.65%	-28.17%	232.21%	40.22%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ended 2005
(in thousands)

	<u>Q1(3/05)A</u>	<u>Q2(6/05)A</u>	<u>Q3(9/05)A</u>	<u>Q4(12/05)A</u>	<u>FY(12/05)A</u>
Net sales	\$ 18,192	\$ 20,918	\$ 21,649	\$ 23,203	\$ 83,962
Cost of sales	<u>14,569</u>	<u>16,792</u>	<u>18,562</u>	<u>19,439</u>	<u>69,361</u>
Gross profit	3,623	4,126	3,087	3,764	14,601
<i>Gross Margin</i>	<i>19.92%</i>	<i>19.72%</i>	<i>14.26%</i>	<i>17.00%</i>	<i>17.39%</i>
SG&A	<u>3,050</u>	<u>3,373</u>	<u>3,069</u>	<u>2,939</u>	<u>12,431</u>
Operating income	573	753	18	825	2,170
<i>Operating Margin</i>	<i>3.15%</i>	<i>3.60%</i>	<i>0.08%</i>	<i>3.56%</i>	<i>2.58%</i>
Interest expense, other income & expenses	<u>(436)</u>	<u>(246)</u>	<u>(258)</u>	<u>(363)</u>	<u>(1,303)</u>
Income before taxes	137	507	(240)	462	867
Income tax (benefit)	<u>52</u>	<u>193</u>	<u>(91)</u>	<u>54</u>	<u>208</u>
<i>Tax rate</i>	<i>37.96%</i>	<i>38.07%</i>	<i>37.92%</i>	<i>11.69%</i>	<i>23.99%</i>
Net Income / (Loss)	<u>\$ 85</u>	<u>\$ 314</u>	<u>\$ (149)</u>	<u>\$ 408</u>	<u>\$ 659</u>
Basic EPS	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>	<u>\$ 0.08</u>	<u>\$ 0.14</u>
Diluted EPS	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ (0.03)</u>	<u>\$ 0.08</u>	<u>\$ 0.13</u>
Basic Shares Outstanding	4,731	4,814	4,820	4,824	4,798
Diluted Shares Outstanding	5,257	5,235	4,820	5,185	5,261
<u>Percent of Revenue</u>					
Cost of goods sold	80.08%	80.28%	85.74%	83.78%	82.61%
SG&A	16.77%	16.12%	14.18%	12.67%	14.81%
<u>Year / Year Growth</u>					
Total Revenues	14.17%	24.31%	22.60%	27.45%	22.35%
Net Income	57.41%	45.37%	-178.42%	-0.73%	-24.34%
EPS	52.18%	51.17%	-175.28%	-4.25%	-27.19%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2006
(in thousands)

	<u>Q1(3/06)A</u>	<u>Q2(6/06)A</u>	<u>Q3(9/06)A</u>	<u>Q4(12/06)E</u>	<u>FY(12/06)E</u>
Net sales	\$ 24,141	\$ 24,534	\$ 21,737	\$ 23,500	\$ 93,912
Cost of sales	<u>19,262</u>	<u>19,245</u>	<u>17,561</u>	<u>18,565</u>	<u>74,633</u>
Gross profit	4,879	5,289	4,176	4,935	19,279
<i>Gross Margin</i>	20.21%	21.56%	19.21%	21.00%	20.53%
SG&A	<u>3,657</u>	<u>3,872</u>	<u>3,293</u>	<u>3,600</u>	<u>14,422</u>
Operating income	1,222	1,417	883	1,335	4,857
<i>Operating Margin</i>	5.06%	5.78%	4.06%	5.68%	5.17%
Interest expense, other income & expenses	<u>(295)</u>	<u>(289)</u>	<u>(245)</u>	<u>(300)</u>	<u>(1,129)</u>
Income before taxes	927	1,128	638	1,035	3,728
Income tax (benefit)	<u>353</u>	<u>428</u>	<u>242</u>	<u>393</u>	<u>1,416</u>
<i>Tax rate</i>	38.08%	37.94%	37.93%	38.00%	37.99%
Net Income / (Loss)	<u>\$ 574</u>	<u>\$ 700</u>	<u>\$ 396</u>	<u>\$ 642</u>	<u>\$ 2,312</u>
Basic EPS	<u>\$ 0.12</u>	<u>\$ 0.14</u>	<u>\$ 0.08</u>	<u>\$ 0.13</u>	<u>\$ 0.46</u>
Diluted EPS	<u>\$ 0.11</u>	<u>\$ 0.13</u>	<u>\$ 0.07</u>	<u>\$ 0.11</u>	<u>\$ 0.42</u>
Basic Shares Outstanding	4,874	4,974	5,098	5,100	5,012
Diluted Shares Outstanding	5,233	5,568	5,722	5,700	5,556
<u>Percent of Revenue</u>					
Cost of goods sold	79.79%	78.44%	80.79%	79.00%	79.47%
SG&A	15.15%	15.78%	15.15%	15.32%	15.36%
<u>Year / Year Growth</u>					
Total Revenues	32.70%	17.29%	0.41%	1.28%	11.85%
Net Income	575.29%	122.93%	365.77%	57.28%	250.79%
EPS	555.48%	115.76%	351.28%	48.77%	235.84%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2007
(in thousands)

	<u>Q1(3/07)E</u>	<u>Q2(6/07)E</u>	<u>Q3(9/07)E</u>	<u>Q4(12/07)E</u>	<u>FY(12/07)E</u>
Net sales	\$ 24,000	\$ 24,500	\$ 25,000	\$ 25,500	\$ 99,000
Cost of sales	<u>18,900</u>	<u>19,233</u>	<u>19,563</u>	<u>19,890</u>	<u>77,585</u>
Gross profit	5,100	5,268	5,438	5,610	21,415
<i>Gross Margin</i>	21.25%	21.50%	21.75%	22.00%	21.63%
SG&A	<u>3,675</u>	<u>3,700</u>	<u>3,725</u>	<u>3,750</u>	<u>14,850</u>
Operating income	1,425	1,568	1,713	1,860	6,565
<i>Operating Margin</i>	5.94%	6.40%	6.85%	7.29%	6.63%
Interest expense, other income & expenses	<u>(300)</u>	<u>(300)</u>	<u>(300)</u>	<u>(300)</u>	<u>(1,200)</u>
Income before taxes	1,125	1,268	1,413	1,560	5,365
Income tax (benefit)	<u>428</u>	<u>482</u>	<u>537</u>	<u>593</u>	<u>2,039</u>
<i>Tax rate</i>	38.00%	38.00%	38.00%	38.00%	38.00%
Net Income / (Loss)	<u>\$ 698</u>	<u>\$ 786</u>	<u>\$ 876</u>	<u>\$ 967</u>	<u>\$ 3,326</u>
Basic EPS	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>	<u>\$ 0.19</u>	<u>\$ 0.65</u>
Diluted EPS	<u>\$ 0.12</u>	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>	<u>\$ 0.58</u>
Basic Shares Outstanding	5,100	5,100	5,100	5,100	5,100
Diluted Shares Outstanding	5,700	5,700	5,700	5,700	5,700
<u>Percent of Revenue</u>					
Cost of goods sold	78.75%	78.50%	78.25%	78.00%	78.37%
SG&A	15.31%	15.10%	14.90%	14.71%	15.00%
<u>Year / Year Growth</u>					
Total Revenues	-0.58%	-0.14%	15.01%	8.51%	5.42%
Net Income	21.52%	12.26%	121.15%	50.72%	43.89%
EPS	16.13%	9.49%	121.06%	50.72%	41.39%

Statement of Cash Flows for the Nine Months Ended
(in thousands)

	<u>September 30, 2006</u>	<u>September 30, 2005</u>
<i>Cash Flows from Operating Activities</i>		
Net income	\$ 1,670	\$ 251
Depreciation & amortization	2,274	2,122
Minority interest	86	256
Equity in net income of unconsolidated affiliate	(15)	(12)
Stock issued in lieu of compensation	144	240
Share-based compensation	348	-
Deferred income taxes	648	154
<i>Changes in assets and liabilities</i>		
Receivables	2,679	(2,212)
Inventories	567	(599)
Prepaid expenses	(55)	105
Accounts payable	(64)	1,286
Accrued restructuring charge	-	(36)
Accrued expenses	205	73
Retirement and other liabilities	5	(60)
Other assets	(21)	11
Net Cash Provided by Operations	8,471	1,579
<i>Cash Flows from Investing Activities</i>		
Additions to property, plant and equipment	(913)	(2,092)
Acquisition of assets of Stephens Packaging	(309)	-
Payments from affiliated company	15	13
Net Cash Used in Investing	(1,207)	(2,079)
<i>Cash Flows from Financing Activities</i>		
Borrowings (payments) of notes payable	(6,024)	58
Change in book overdrafts	(927)	917
Principal repayments of long-term debt	(519)	(847)
Proceeds from exercise of stock options	498	-
Tax benefit from exercise of non-qualified stock options	168	-
Principle repayments of capital lease obligations	(1,844)	(300)
Proceeds from long-term capital lease obligations	1,359	731
Distribution to United Development Company partners	(105)	(105)
Net proceeds from sale of common stock	47	71
Net cash Provided Financing	(7,347)	525
Net change in Cash	(83)	26
Cash - Beginning of Period	265	318
Cash - End of Period	\$ 182	\$ 344