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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 29, 2010

UFPT $11.00 — (NASDAQ CM)

	2008A	2009A	2010E	2011E
Revenues (millions)	$110.0	$99.2	$120.6	$126.0
Earnings per share (diluted)	$0.82	$0.94	$1.28	$1.38

52-Week range	$13.32 – $6.13	Fiscal year ends:	December
Shares outstanding as of 11/27/10	6.2 million	Revenue per share (TTM)	$17.74
Approximate float	4.6 million	Price/Sales (TTM)	0.6X
Market capitalization	$68 million	Price/Sales (2011)E	0.6X
Tangible book value/share	$6.40	Price/Earnings (TTM)	8.1X
Price/tangible book	1.7X	Price/Earnings (2011)E	8.0X

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 Speculative Buy rating on UFP Technologies and raising our price target to $16.50 per share from $14.50 based on higher earnings expectations.

Industry growth should drive expansion in UFPT's principal end markets, increasing demand for the company's products. Projected growth in the automobile industry and a focus on creating lightweight and fuel-efficient vehicles indicates there will be opportunities for foam components to establish a larger role in the automotive industry.

Better revenue and gross margin gains than we anticipated resulted in an increase in our estimates. For 2010, we project revenue of $120.6 million and net income of $8.6 million or $1.28 per diluted share. We previously estimated 2010 revenue of $118.7 million and net income of $7.6 million or $1.12 per diluted share.

In line with the long-term industry growth rate of 5%, we project 2011 revenue of $126.0 million and net income of $9.7 million or $1.38 per diluted share. We previously estimated 2011 revenue of $124.6 million and net income of $8.4 million or $1.21 per diluted share.

UFP has a strong balance sheet with a low debt/equity ratio (0.2 versus 2.7 for the industry). Cash exceeds all indebtedness and liabilities. Excluding the effect that acquisitions had on year-to-date results ($10.5 million additional revenue from acquisitions), revenues grew at a healthy 12% rate.

On November 3, 2010, UFPT reported Q3/10 sales increased 10% to $30.5 million while EPS increased to $0.35 from $0.34. Included in the results for Q3/09 was a pre-tax gain of approximately $0.8 million or $0.12 per share related to acquisitions. We estimated Q3/10 sales of $28.9 million and EPS of $0.23.

Please view our disclosures starting on page 12.

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and raising our price target to $16.50 per share from $14.50 based on higher earnings expectations.

From 2004 to 2009, UFPT traded at an average earnings multiple of 13X. During that period, the stock's P/E ranged between 5X and 28X. UFPT's multiple has increased to 8X from 5X since the beginning of the year and we believe continued improvement in financial results should raise the multiple closer to its historic average. Applying a multiple of 12X to our 2011 earnings of $1.38 per share gives us a **price target of approximately $16.50.**

Industry Outlook

IBISWorld forecasts the urethane and foam products industry to increase revenues at an average annualized rate of 4.7% from 2009 to 2014. The industries that UFP sells to are projected to show growth going forward. Details are as follows:

- Projected growth in the automobile industry and a focus on creating lightweight and fuel-efficient vehicles indicates that there will be opportunities for foam components to establish a larger role in the automotive industry.

- The Consumer Electronics Association projects industry shipment revenues will climb 4% to an all-time high of more than $182 billion in 2011 and will be driven by innovative new products like tablet computers and 3D displays.

- The industry analysis firm, Global Data, projects the global medical equipment industry, valued at $280 billion in 2009, to grow by more than 8% annually to exceed $490 billion in 2016. The primary driver of this growth is a continuously aging population ensuring a steady demand for medical equipment and healthcare services.

- Industry research firm Datamonitor projects the global aerospace and defense market to have a value of $937.5 billion in 2014, for a compound annual growth rate of approximately 5%.

We believe the current economic outlook supports moderate growth for the company going forward. The Philadelphia Fed forecasts a slow but sustainable economic recovery of around 3 to 3½ percent over the next two years. The International Monetary Fund cut its growth projections for the US economy to a moderate 2.6% rate in 2010 and 2.3% in 2011. This is down from earlier projections of 3.3% in 2010 and 2.9% in 2011. The IMF said that US economic activity slowed noticeably in the second quarter of 2010 and that consumption has been growing at low rates in the third quarter.

Competition

The packaging industry is highly competitive. Competition is based primarily on packaging performance characteristics, service and price. Since competition is also based upon innovations in packaging technology, research and development programs are essential in maintaining technological leadership. We believe UFP Technologies invests approximately 40% more than the industry average on research and development as a percentage of net sales per year. The industry on average spends approximately 1% of sales on R&D while UFPT averaged approximately 1.4% of sales on R&D over the past three years.

We believe the company's ability to custom design its own proprietary manufacturing equipment in conjunction with its machinery suppliers allows the company to effectively differentiate its products from the competition. 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 larger competitors include Sealed Air Corp. (NYSE: SEE) and privately held FXI-Foamex International, and Tegrant Corporation. Year-to-date revenues reported by Sealed Air were $3.3 billion versus $3.1 billion in the same period in 2009. We could not find any public data related to revenues for FXI-Foamex International and Tegrant.

Projections

2010 Forecast

With industry forecasts for robust sales growth this year (8.8% according to IBISWorld), we estimate 2010 revenue of $120.6 million ($109.6 million excluding the effect of acquisitions) and net income of $8.6 million or $1.28 per diluted share. We previously estimated revenue of $118.7 million and net income of $7.6 million or $1.12 per diluted share. Better sales and much improved gross margins than we anticipated are the primary reasons for the increase in our estimates. Despite the lackluster US economy, UFPT's sales have shown robust growth this year due to acquisitions and organic growth.

Although gross margins have averaged 29.0% since all acquisitions were completed by Q3/09, we project gross margins of 28.6% in 2010 due to high energy costs partially offset by increased capacity utilization. SG&A expenses should increase due to the increased level of sales. However, as a percent of sales, SG&A expenses should decrease to 17.1% from 18.7% as the higher level of sales should more than offset the relatively fixed-cost components of SG&A. We believe the majority (over 90%) of the company's SG&A expenses are fixed with a small percentage being variable due to fluctuating sales commissions. We are forecasting a tax rate of 37%, in line with the average rate over the past few years.

In 2010, we project $13.4 million cash from operations driven by cash earnings of $13.4. $3.2 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $1.0 million in acquisitions. Cash used in financing activities should consist primarily of $0.7 million principal repayments of long-term debt. We project an increase in cash of $9.7 million for a year end cash balance of $24.7 million.

2011 Forecast

Although UFPT's organic sales growth has been greater than projected industry growth, (12% in 2010 versus 9% for the industry), in an effort to be conservative, we are projecting UFPT's sales to grow in line with the long-term industry growth rate of approximately 5%. For 2011, we project 2011 revenue of $126.0 million and net income of $9.7 million or $1.38 per share. We previously estimated revenue of $124.6 million and net income of $8.4 million or $1.21 per diluted share. The increase in our earnings estimate is primarily due to an increase in gross margins to 29.0% from 27.8% driven by increased capacity utilization.

We project increased SG&A expenses with the higher level of sales. The modest $348,000 increase over 2010 is due to the minimal effect that sales commissions have on largely fixed SG&A expenses. We are maintaining a tax rate projection of 37%.

In 2011, we project $13.7 million cash from operations driven by cash earnings of $14.2 million partially offset by increases in working capital of $0.5 million. $3.2 million cash used in investing activities will consist of an estimated $2.2 million of capital expenditures and $1.0 million in acquisitions. Financing activities consist primarily of $0.8 million principal repayments of long-term debt and $0.3 million proceeds from the exercise of stock options. We project an increase in cash of $9.9 million for a year end cash balance of $34.6 million.

3rd Quarter and 9 Months Financial Results

For the third quarter ended September 30, 2010 versus the same period in 2009:

- Net sales increased 10% to $30.5 million from $27.6 million.
- Gross margins increased to 29.2% from 27.0%.
- SG&A expenses remained relatively flat at $5.1 million.
- Net income was $2.4 million or $0.35 per diluted share versus net income of $2.1 million or $0.34 per diluted share. Included in the results for Q3/09 was a pre-tax gain of approximately $0.8 million or $0.12 per share related to acquisitions.

We projected Q3/10 net sales of $28.9 million and net income of $1.6 million or $0.23 per diluted share.

The increase in sales was primarily due to increased sales of interior trim parts to the automotive industry.

The increase in gross margin was primarily due to greater manufacturing overhead coverage.

For the nine months ended September 30, 2010 versus the same period in 2009:

- Net sales increased 27% to $89.1 million from $70.2 million. Excluding revenue contribution of businesses acquired in 2009, revenue increased 12% to $78.6 million.
- Gross margins increased to 28.5% from 25.3%.
- SG&A expenses increased to $15.5 million from $13.9 million.
- Net income was $6.2 million or $0.92 per diluted share versus net income of $3.0 million or $0.49 per diluted share. Included in the results for 2009 was a pre-tax gain of approximately $0.8 million or $0.14 per share related to acquisitions.

	9mos2009	9mos2010
Net sales	**$ 70,187**	**$ 89,126**
Cost of sales	52,419	63,716
Gross profit	17,768	25,410
SG&A	13,877	15,502
Operating income	3,891	9,908
Interest expense, other income and expenses	665	(92)
Income before taxes	4,556	9,816
Income tax	1,489	3,617
Income attributable to noncontrol. interests	(43)	(41)
Net Income / (Loss)	**$ 3,024**	**$ 6,158**
Basic EPS	**$ 0.52**	**$ 1.01**
Diluted EPS	**$ 0.49**	**$ 0.92**
Basic Shares Outstanding	5,799	6,117
Diluted Shares Outstanding	6,222	6,728
Margin Analysis		
Gross margin	25.3%	28.5%
SG&A	19.8%	17.4%
Operating margin	5.5%	11.1%

Source: Company filings

The increase in sales was primarily due to sales of approximately $11.9 million from businesses acquired during 2009 and increased sales of approximately $5.7 million of interior trim parts to the automotive industry

The increase in gross margin was primarily due to greater manufacturing overhead coverage.

The increase in SG&A was primarily due to $1.8 million of additional costs associated with the 2009 acquisitions (Foamade in March, E.N. Murray in July, and Advanced Materials in August). As a percentage of sales, SG&A expenses decreased primarily from the company's ability to leverage the relatively fixed components of SG&A costs against higher sales.

Liquidity

The company has a strong balance sheet. Long-term debt is $7.0 million (for a debt/equity ratio of 0.2 versus 2.7 for the industry) and cash exceeds all indebtedness and liabilities.

Cash of $9.1 million from operations consisted mainly of cash earnings of $9.4 million and increases in working capital due primarily to increased accounts payable of $0.9 million, increased inventories of $0.7 million, decreased accrued taxes and other expenses of $0.6 million, and increased retirement and other liabilities of $0.2 million. Capital expenditures were $1.4 million and net cash used in financing activities was $0.2 million. The net result was a $7.4 million net increase in cash for a balance of $22.4 million as of September 30, 2010.

The company has significant bank credit facilities available which we believe will allow it to take advantage of additional strategic acquisitions should any be identified. UFPT's available bank credit facilities are as follows:

- a $17 million revolving line of credit
- a $2.1 million term loan with 7 year straight-line amortization
- a $1.8 million term loan with 20 year straight-line amortization
- a $4.0 million term loan with 20 year straight-line amortization

As of September 30, 2010, the company had approximately $15.6 million available on its revolving line of credit based upon available collateral. The credit facility bears interest at LIBOR plus 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The credit facility contains restrictive financial covenants of which it was in compliance at June 30, 2010. The company's $17 million revolving credit facility is due November 30, 2013; the term loans are all due on January 29, 2016.

Business

UFP Technologies designs and manufactures engineered packaging solutions utilizing molded fiber, vacuum-formed plastics, and molded and fabricated foam plastic products. The company also designs and manufactures engineered component products using laminating, molding, and fabricating technologies. UFP sells mainly to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets.

Sales of the company's components products were responsible for 67% of total sales in the first nine months of 2010 while packaging products comprised 33%. During this period, component product sales increased 41% while packaging product sales increased 6% from the comparable period in 2009. The increase in sales was primarily due to acquisitions and increased sales to the automotive industry. UFPT's components product sales generate higher operating margins as compared to packaging product sales (12.8% for components versus 7.8% for packaging in the first nine months of 2010).

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

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

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

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

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 32% of total revenues in 2009. A single automotive program accounted for approximately 13% of UFPT's Component Products segment sales and 8% of total sales in 2009. The program is scheduled to phase out beginning in 2011 but could terminate sooner. The next generation of automobiles in this program may not require the same design of parts. Even if it does, the company may not be selected as the supplier. The company expects sales from this program to decline over the next two years.

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

Cost of energy and raw materials
UFP Technologies uses electricity and natural gas at its manufacturing facilities to operate its equipment. Energy costs have been high in 2010 impacting gross margins. Prolonged armed conflict in the Middle East or natural disasters could result in a real or perceived shortage of petroleum and/or natural gas, raising the cost of UFPT's raw materials, of which many are petroleum-based.

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
- iv. the ability of the company to execute and integrate favorable acquisitions

Liquidity
With only 6.2 million shares outstanding and 4.6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 64,000 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 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.

Balance Sheet for the Periods Ended
(in thousands $)

	2007A	2008A	2009A	9/10A	2010E	2011E
Assets						
Current assets:						
Cash and cash equivalents	9,060	6,729	14,999	22,375	24,703	34,564
Receivables	11,796	12,755	14,218	14,158	14,073	14,700
Inventories	5,877	8,153	7,647	8,340	8,608	8,950
Prepaid expenses	821	516	476	580	615	650
Deferred income taxes	1,021	1,489	1,411	1,404	1,400	1,400
Total current assets	28,575	29,642	38,751	46,857	49,399	60,264
Net property, plant and equipment	9,492	11,754	12,218	11,450	11,200	10,200
Deferred income taxes	189	-	-	-	-	-
Goodwill	6,481	6,481	6,481	6,481	6,481	6,481
Other assets	816	846	2,002	1,968	2,000	2,000
Total assets	**45,553**	**48,723**	**59,452**	**66,756**	**69,080**	**78,945**
Liabilities & stockholders' equity						
Current liabilities:						
Current portion of long-term debt	714	717	623	656	650	650
Current portion of capital lease obligations	705	703	-	-	-	-
Accounts payable	5,694	3,304	4,274	5,192	5,074	5,275
Accrued taxes and other expenses	6,510	6,230	6,153	5,562	6,031	6,300
Total current liabilities	13,623	10,954	11,050	11,410	11,755	12,225
Long-term debt	4,658	3,942	7,502	7,002	6,800	6,000
Capital lease obligations	1,613	910	-	-	-	-
Minority interest	584	523	-	-	-	-
Deferred income taxes	-	113	777	718	1,300	1,600
Other liabilities	832	914	1,118	1,340	1,340	1,340
Total liabilities	**21,310**	**17,356**	**20,447**	**20,470**	**21,195**	**21,165**
Total stockholders' equity	**24,243**	**31,367**	**39,005**	**46,286**	**47,885**	**57,780**
Total liabilities & stockholders' equity	**45,553**	**48,723**	**59,452**	**66,756**	**69,080**	**78,945**

Source: Company filings and Taglich Brothers' estimates

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

	2007A	2008A	2009A	2010E	2011E
Net sales	93,595	110,032	99,231	120,625	126,000
Cost of sales	70,785	81,469	72,512	86,081	89,498
Gross profit	22,810	28,563	26,719	34,544	36,502
Restructuring charge	-	1,315	-	-	-
SG&A	15,563	18,823	18,539	20,652	21,000
Operating income	7,247	8,425	8,180	13,892	15,502
Interest exp, other inc and exp	(504)	(314)	618	(132)	(90)
Income before taxes	6,743	8,111	8,798	13,760	15,412
Income tax	2,584	2,995	2,817	5,076	5,703
Tax rate	*38.32%*	*36.93%*	*32.02%*	*36.89%*	*37.00%*
Income attrib. to noncontrol. interests		-	(52)	(56)	(60)
Net Income / (Loss)	4,159	5,116	5,929	8,628	9,650
Basic EPS	0.78	0.92	1.02	1.40	1.51
Diluted EPS	0.71	0.82	0.94	1.28	1.38
Basic Shares Outstanding	5,307	5,550	5,829	6,150	6,375
Diluted Shares Outstanding	5,861	6,263	6,294	6,751	6,975
Margin Analysis					
Gross margin	24.4%	26.0%	26.9%	28.6%	29.0%
SG&A	16.6%	17.1%	18.7%	17.1%	16.7%
Operating margin	7.7%	7.7%	8.2%	11.5%	12.3%
Year / Year Growth					
Total Revenues	-0.2%	17.6%	-9.8%	21.6%	4.5%
Net Income	65.4%	23.0%	15.9%	45.5%	11.8%
EPS	57.2%	15.1%	15.3%	35.7%	8.2%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2009, 2010, and 2011
(in thousands $)

	3/09A	6/09A	9/09A	12/09A	2009A	3/10A	6/10A	9/10A	12/10E	2010E	3/11E	6/11E	9/11E	12/11E	2011E
Net sales	21,808	20,959	27,620	29,044	99,231	28,700	29,957	30,468	31,500	120,625	29,600	32,100	30,900	33,400	126,000
Cost of sales	16,865	15,588	20,166	20,093	72,512	21,243	20,911	21,562	22,365	86,081	21,223	22,727	22,001	23,547	89,498
Gross profit	4,943	5,371	7,454	8,951	26,719	7,457	9,046	8,906	9,135	34,544	8,377	9,373	8,899	9,853	36,502
Restructuring charge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SG&A	4,390	4,416	5,071	4,662	18,539	5,012	5,387	5,103	5,150	20,652	5,200	5,250	5,250	5,300	21,000
Operating income	553	955	2,383	4,289	8,180	2,445	3,659	3,803	3,985	13,892	3,177	4,123	3,649	4,553	15,502
Interest exp, other inc and exp	2	(54)	716	(46)	618	(35)	(22)	(35)	(40)	(132)	(30)	(25)	(20)	(15)	(90)
Income before taxes	555	901	3,099	4,243	8,798	2,410	3,637	3,768	3,945	13,760	3,147	4,098	3,629	4,538	15,412
Income tax	194	319	977	1,327	2,817	888	1,339	1,389	1,460	5,076	1,164	1,516	1,343	1,679	5,703
Tax rate	*34.95%*	*35.41%*	*31.53%*	*31.28%*	*32.02%*	*36.85%*	*36.82%*	*36.86%*	*37.00%*	*36.89%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*	*37.00%*
Income attrib. to noncontrol. interests	(16)	(16)	(10)	(10)	(52)	(11)	(16)	(14)	(15)	(56)	(15)	(15)	(15)	(15)	(60)
Net Income / (Loss)	345	586	2,112	2,906	5,929	1,511	2,282	2,365	2,470	8,628	1,967	2,567	2,271	2,844	9,650
Basic EPS	0.06	0.10	0.36	0.49	1.02	0.25	0.37	0.38	0.40	1.40	0.31	0.40	0.35	0.44	1.51
Diluted EPS	0.06	0.09	0.34	0.45	0.94	0.23	0.34	0.35	0.36	1.28	0.29	0.37	0.32	0.40	1.38
Basic Shares Outstanding	5,713	5,767	5,894	5,920	5,829	5,997	6,138	6,215	6,250	6,150	6,300	6,350	6,400	6,450	6,375
Diluted Shares Outstanding	6,153	6,191	6,301	6,497	6,294	6,642	6,725	6,785	6,850	6,751	6,900	6,950	7,000	7,050	6,975
Margin Analysis															
Gross margin	22.9%	25.6%	27.0%	30.8%	26.9%	26.0%	30.2%	29.2%	29.0%	28.6%	28.3%	29.2%	28.8%	29.5%	29.0%
SG&A	20.3%	21.1%	18.4%	16.1%	18.7%	17.5%	18.0%	16.7%	16.3%	17.1%	17.6%	16.4%	17.0%	15.9%	16.7%
Operating margin	2.6%	4.6%	8.6%	14.8%	8.2%	8.5%	12.2%	12.5%	12.7%	11.5%	10.7%	12.8%	11.8%	13.6%	12.3%
Year / Year Growth															
Total Revenues	-22.9%	-26.3%	0.4%	11.4%	-9.8%	32.8%	42.9%	10.3%	8.5%	21.6%	3.1%	7.2%	1.4%	6.0%	4.5%
Net Income	-69.9%	-64.0%	69.4%	153.6%	15.9%	338.0%	303.2%	12.0%	-15.0%	45.5%	30.2%	12.5%	-4.0%	15.1%	11.8%
EPS	-70.3%	-62.9%	69.7%	138.6%	15.3%	305.7%	271.2%	4.0%	-19.4%	35.7%	25.3%	8.8%	-6.9%	11.9%	8.2%

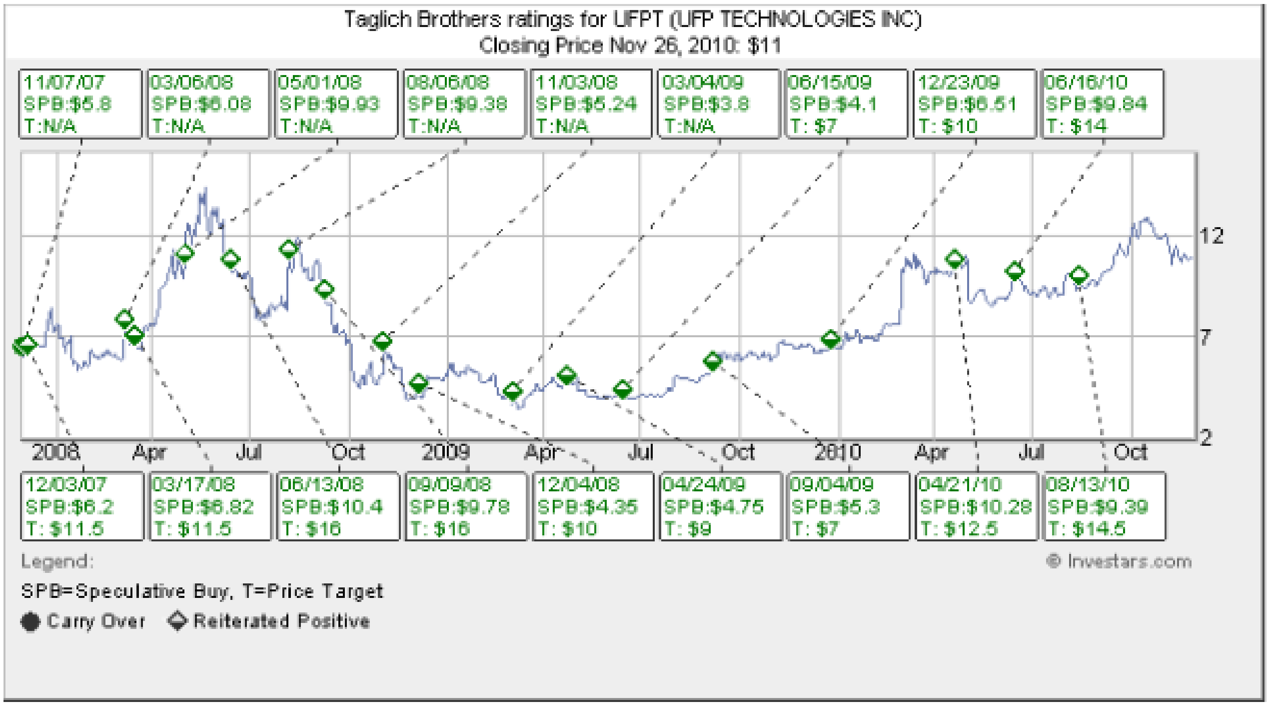
Source: Company filings and Taglich Brothers' estimates

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

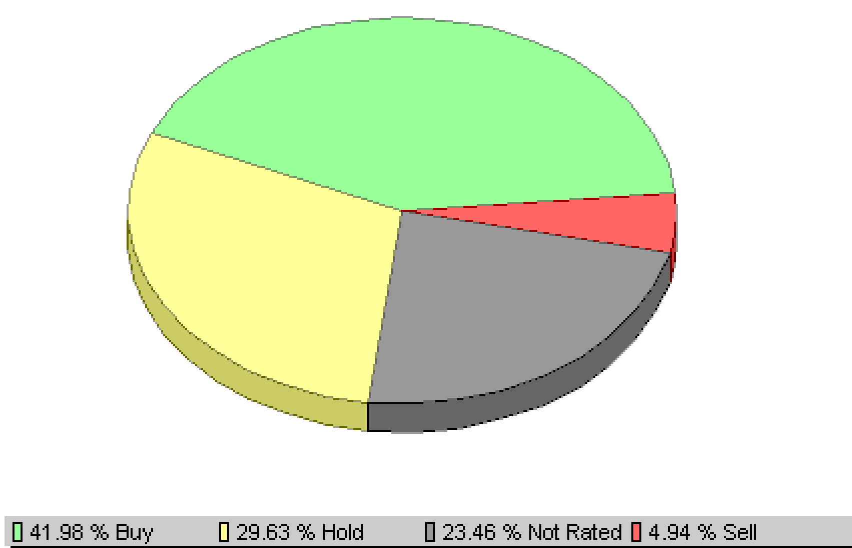
	2007A	2008A	2009A	9mos10A	2010E	2011E
Cash Flows from Operating Activities						
Net income	4,159	5,116	5,982	6,199	8,628	9,650
Depreciation & amortization	2,815	2,977	2,895	2,394	3,200	3,200
Restructuring leasehold improvement write-off	-	170	-	-	-	-
Equity in net income of unconsolidated affiliate	(15)	(7)	-	-	-	-
Minority interest	72	44	-	-	-	-
Gain on acquisition	-	-	(840)	-	-	-
(Gain) loss on disposal of property, plant and equipment	(33)	(57)	(11)	(12)	(12)	-
Share-based compensation	692	1,306	901	773	1,000	1,000
Stock issued in lieu of compensation	256	344	184	79	200	200
Deferred income taxes	1,210	16	227	(53)	400	150
Changes in assets and liabilities						
Receivables	(167)	777	(342)	60	145	(627)
Inventories	53	(435)	1,863	(692)	(961)	(342)
Prepaid expenses	(55)	350	73	(104)	(139)	(35)
Accounts payable	1,074	(2,777)	393	919	800	201
Accrued expenses and other	760	(937)	(331)	(591)	(122)	269
Retirement and other liabilites	95	(119)	204	222	222	-
Other assets	(213)	(83)	(509)	(142)	2	-
Net Cash Provided by Operations	**10,703**	**6,685**	**10,689**	**9,052**	**13,363**	**13,666**
Cash Flows from Investing Activities						
Additions to property, plant and equipment	(2,101)	(2,763)	(1,857)	(1,450)	(2,200)	(2,200)
Cash surrender value of officers' life insurane	(15)	(15)	-	-	-	-
Payments from affiliated company	15	7	-	-	-	-
Proceeds from sale of property, plant and equipment	33	101	13	12	12	-
Acquisitions	-	(5,181)	(2,435)	-	(1,000)	(1,000)
Net Cash Used in Investing	**(2,068)**	**(7,851)**	**(4,279)**	**(1,438)**	**(3,188)**	**(3,200)**
Cash Flows from Financing Activities						
Borrowings (payments) of notes payable	-	-	-	-	-	-
Proceeds from long-term borrowings	786	-	4,000	-	-	-
Distribution to United Development Company partners	(105)	(105)	(105)	(105)	(105)	(105)
Tax benefit from exercise of non-qualified stock options	215	211	23	496	496	-
Net proceeds from sale of common stock	24	20	-	-	-	-
Proceeds from exercise of stock options	272	333	130	324	324	300
Payment of statutory witholdings for stock options exercised	-		-	(486)	(486)	-
Principal repayments of long-term debt	(1,095)	(714)	(577)	(467)	(700)	(800)
Principle repayments of capital lease obligations	(689)	(704)	(1,612)	-	-	-
Proceeds from refinancing capital leases	-	-	-	-	-	-
Cash settlement of restricted stock units	-	(206)	-	-	-	-
Net Cash Provided by (Used in) Financing	**(592)**	**(1,165)**	**1,859**	**(238)**	**(471)**	**(605)**
Net Change in Cash	**8,043**	**(2,331)**	**8,269**	**7,376**	**9,704**	**9,861**
Cash - Beginning of Period	**1,017**	**9,060**	**6,729**	**14,999**	**14,999**	**24,703**
Cash - End of Period	**9,060**	**6,729**	**14,999**	**22,375**	**24,703**	**34,564**
Cash Flow from Operations	10,703	6,685	10,689	9,052	13,363	13,666
Capital Expenditures	(2,101)	(2,763)	(1,857)	(1,450)	(2,200)	(2,200)
Free Cash Flow	8,602	3,922	8,832	7,602	11,163	11,466

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	4.17%
Hold	0	0.00%
Sell	1	100.00%
Not Rated	0	0.00%

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

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.

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.