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Research Report – Update

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

UFP Technologies, Inc.

Rating: Buy

John Nobile
May 31, 2016

UFPT $21.26 — (NASDAQ CM)

	2014A	2015A	2016E	2017E
Revenues (millions)	$139.3	$138.9	$143.5	$152.7
Earnings per share (diluted)	$1.05	$1.05	$1.04	$1.70

52-Week range	$25.50 – $17.51	Fiscal year ends:	December
Shares outstanding as of 5/2/16	7.2 million	Revenue per share (TTM)	$19.26
Approximate float	5.3 million	Price/Sales (TTM)	1.1X
Market capitalization	$153 million	Price/Sales (2017)E	1.0X
Tangible book value/share	$13.50	Price/Earnings (TTM)	21.9X
Price/tangible book	1.6X	Price/Earnings (2017)E	12.5X

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures packaging and custom products for the medical, automotive, consumer, electronics, industrial, and aerospace and defense markets using foams, plastics, composites, and natural fiber materials. (www.ufpt.com)

Key investment considerations:

Reiterating Buy rating on UFP Technologies. Maintaining twelve-month price target of $25.00.

Continued strong demand from the medical device market (sales up 14% in 2015 and 13% in 1Q16), and a five-year, $45 million deal that more than doubles sales to a medical device manufacturer, should help drive growth in UFPT's sales through our forecast horizon.

Plant consolidations in 2015 and 2016 will cut costs by approximately $1 million annually, driving gross margin improvement from 27% in 2015 to 29% in 2017.

For 2016, we project revenue growth of 3% to $143.5 million and EPS of $1.04. Our lower projections (previously $147 million in revenue and EPS of $1.45) primarily reflect 1Q16 results and the short-term adverse effect recent consolidations will have on revenue and gross margins.

For 2017, we project revenue growth 6% to $152.7 million and EPS of $1.70. Our lower projections (previously $153.1 million in revenue and EPS of $1.73) are primarily due to slow growth in the automotive market.

1Q16 revenue (10-Q released 5/9/16) increased 2% to $34.5 million while EPS decreased to $0.15 from $0.23. Excluding restructuring costs of $123,000 in 1Q16 and $78,000 in 1Q15, EPS was $0.16 in 1Q16 versus $0.24 in 1Q15. We projected 1Q16 sales of $35.8 million and EPS of $0.29.

Please view our disclosures on pages 11 - 13.

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Recommendation and Valuation

We are reiterating our Buy rating on UFP Technologies. Maintaining twelve-month price target of $25.00.

Shares of UFPT currently trade at a trailing price to earnings multiple of 22X, as they did two months earlier. The company's direct competitors are trading at an average multiple of 20X TTM earnings (excludes Greif's 54X multiple). In light of UFPT's stable valuation, our valuation multiple is unchanged at 16X 2017 earnings. Discounted to account for execution risk, our year-ahead target is approximately $25.00.

Business

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures packaging and custom products for the medical, automotive, consumer, electronics, industrial, and aerospace and defense markets using foams, plastics, composites, and natural fiber materials.

UFPT's products include automotive interior trim, medical device components, disposable wound care components, athletic padding, air filtration, high-temperature insulation, and military uniform and gear components.

Approximately 41% of sales are to the medical device industry for applications such as compression-molded foam finger splints, orthopedic foam components, and dental fluoride trays. UFPT's other end markets (automotive, defense, consumer electronics, and industrial) each account for approximately 10% to 20% of the company's revenue.

The company differentiates itself through the design and production of customized products (such as foam case inserts pictured at right). Through a combination of materials, technology, and engineering, the company is able to produce unique case inserts for surgical instruments, customized repair kits, electronic parts, emergency response equipment, and many other applications.

Industry Outlook

In May 2016, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 2.3% to $12.9 billion through 2022. Industry growth is predicated on strong overall domestic demand. Demand for automobiles is expected to increase purchases of urethane used in seats and vehicle insulation, and increased consumer spending will increase polyurethane packaging production.

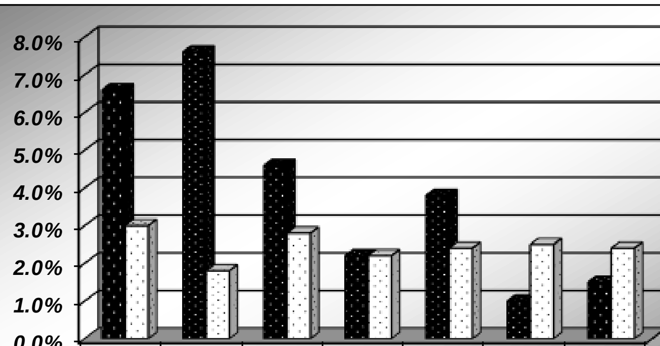
The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years.

The Patient Protection and Affordable Care Act (PPAC) imposed a 2.3% excise tax on the sale of medical devices which was expected to adversely impact the industry's profitability. However, this tax was suspended for manufacturers for a two year period beginning January 1, 2016 and ending December 31, 2017. This suspension is expected to increase profitability and new product development in the industry. The PPAC is also expected to benefit the industry as it aims to increase the number of insured people, driving increased usage of medical devices.

In May 2016, IBISWorld forecasted medical device industry average annual sales growth of approximately 2.8% to $55.1 billion during the six years to 2022.

In March 2016, IBISWorld projected the US car and automobile industry to show average annual sales growth of 1.1% to $134.9 billion in the six years to 2021. Growth will be driven by renewed consumer spending and a move toward green (hybrid and electric fuel-efficient) vehicles.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which are economically sensitive. The chart at right shows how US consumer electronics sales were affected by changes in the economy over the past five years with projections to 2016.



	2010	2011	2012	2013	2014	2015	2016e
US CE Sales Growth	6.6%	7.6%	4.6%	2.2%	3.8%	1.0%	1.5%
US GDP Growth	3.0%	1.8%	2.8%	2.2%	2.4%	2.5%	2.4%

Source: Consumer Technology Association; International Monetary Fund

In January 2016, The Consumer Technology Association forecasted US consumer electronics retail sales to grow at an annual rate of approximately 1.5% to $287 billion in 2016. Growth will be driven by technologies such as smartphones, televisions and laptops.

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 Pentagon's latest budget proposal of $583 billion for US defense spending in 2017 is $3 billion higher than 2016 and $20 billion higher than 2015. This boost in defense spending over the next two years should bode well for UFPT's sales to this market.

Economic Outlook

Most of UFPT's sales are to economically sensitive end markets. With UFPT's business conducted primarily in the US, the slowing economic growth projections for this area could constrain growth.

In April 2016, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.2% in 2016 and 3.5% in 2017, down from an earlier (January 2016) growth forecast of 3.4% in 2016 and 3.6% in 2017. The lowered growth estimate primarily reflects weakness in oil exporting countries.

The IMF lowered its economic growth estimate for the US to 2.4% in 2016 and 2.5% in 2017, down from an earlier (January 2016) growth forecast of 2.6% in both 2016 and 2017. The IMF said that while balance sheets strengthen and the housing market improves, net exports were expected to drag on the economy.

The advance estimate of US GDP growth (released on April 28, 2016) showed the US economy grew at an annual rate of 0.5% in 1Q16, down from 1.4% growth in 4Q15. The 1Q16 US GDP growth estimate primarily reflects a rise in consumer spending. Partly offsetting this contribution to GDP growth was a decline in business investment, private inventory investment, exports, and government spending.

Competition

The packaging industry is highly competitive. While there are several national companies that sell interior packaging, the company's primary competition for its packaging are smaller independent regional manufacturing companies. The company's foam and fiber packaging products also compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The company's component products compete with smaller companies that typically concentrate on production of component products for specific industries.

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

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

Some of UFPT's public competitors include Graphic Packaging, Packaging Corp. of America, Greif, Bemis Company, and Sealed Air Corp. TTM sales and gross margins for UFP Technologies and its public competitors are shown in the table at right.

Company	Sales TTM	Gross Margin
Graphic Packaging	$4.2B (3/16)	18.8%
Packaging Corp. of America	$5.7B (3/16)	21.2%
Greif	$3.5B (1/16)	19.2%
Bemis Company	$4.0B (3/16)	21.8%
Sealed Air Corp.	$6.9B (3/16)	37.6%
UFP Technologies	$138.4M (3/16)	26.9%

Source: Yahoo! Finance

UFPT's margins are at the high end of the range for our comparison group, due arguably to the company's ability to differentiate its products. Most of the company's competitors primarily offer conventional shipping and packaging products (i.e. shipping containers and boxes) or flexible packaging products (i.e. plastic bags, films and laminates) whereas UFP Technologies offers products that are custom designed and engineered for specific applications (i.e. customized foam case inserts for the electronics industry).

Projections

In 2015, the company ceased operations at its Raritan, New Jersey plant and consolidated operations into its Newburyport, Massachusetts, facility and other UFPT facilities. UFPT also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts facilities into its Newburyport, Massachusetts, facility in 2015.

The company plans to relocate certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility by June 30, 2016. Approximately $2.1 million in one-time expenses are expected in connection with these consolidations of which approximately $1.8 million was incurred in 2015 and 1Q16 with the remaining $300,000 expected to be recognized in 2Q16. Annual cost savings from these consolidations, primarily in reduced real estate and labor costs, should be approximately $1 million.

2016 Forecast

For 2016, we project revenue growth of 3% to $143.5 million and net income of $7.5 million or $1.04 per share. Our lower projections ($147 million in revenue and net income of $10.6 million or $1.45 per share previously) primarily reflect 1Q16 results and the short-term adverse effect recent consolidations will have on revenue and gross margins (due to staff training and customers needing to requalify transferred jobs).

The recent consolidations should adversely affect gross margins for most of the year resulting in a margin of 25.5%, down from 27% in 2015. SG&A expenses should increase to $24.6 million from $24 million in 2015 due primarily to increased compensation costs. SG&A margins are projected to decrease to 17.1%. Operating income is projected to decrease to $11.6 million from $11.7 million with margins decreasing to 8.1% from 8.4%. Taxes are estimated at 35.3%.

In 2016, we project $13.1 million cash from operations consisting primarily of cash earnings. Cash from operations should cover capital expenditures and repayment of debt, increasing cash by $6.6 million to $36.4 million at the end of 2016.

2017 Forecast

For 2017, we project revenue growth of 6% to $152.7 million and net income of $12.4 million or $1.70 per share. Our lower projections (previously $153.1 million in revenue and net income of $12.6 million or $1.73 per share) are primarily due to slow growth in the automotive market. Helping to offset the slow growth of the automotive market is a five-year contract worth an estimated $45 million that more than doubles UFPT's annual sales to a medical device manufacturer.

We project gross margins of 29%, up from 25.5% in 2016, due primarily to a full year of cost savings from the 2016 plant consolidation and increased overhead coverage. SG&A expenses should increase to $25.2 million from $24.6 million in 2016 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.5%. Operating income is projected to increase to $19.1 million from $11.6 million with margins increasing to 12.5% from 8.1%. Taxes are estimated at 35%.

In 2017, we project $17.8 million cash from operations from cash earnings of $18.6 million and a $744,000 increase in working capital. The increase in working capital is primarily due to a $1.2 million increase in receivables offset in part by a $356,000 increase in accrued expenses. Cash from operations should cover capital expenditures and repayment of long-term debt, increasing cash by $11.5 million to $47.9 million at the end of 2017.

1Q 2016 Financial Results

1Q16 - Sales increased 2% to $34.5 million. Net income decreased to $1.1 million or $0.15 per share from $1.7 million or $0.23 per share. Excluding restructuring costs of $123,000 in 1Q16 and $78,000 in 1Q15, net income was $1.2 million or $0.16 per share in 1Q16 versus $1.7 million or $0.24 per share in 1Q15. We projected 1Q16 sales of $35.8 million and net income of $2.1 million or $0.29 per share.

The increase in sales was primarily due to increased sales to the medical market partially offset by a decline in sales to the automotive market. The increase in sales to the medical market was largely due to recently awarded contracts. The decline in automotive sales was largely due to longer shutdowns at certain customers as well as disrupted manufacturing at one of the company's key customers due to a relocation of production to a new facility.

Gross margins decreased to 22.4% from 25.4% due primarily to increased material and labor costs as a result of recent plant consolidations. SG&A expenses decreased to $5.9 million from $6 million. Restructuring costs associated with the company's plant consolidations (included in extraordinary items) were $123,000.

Operating income decreased to $1.7 million in 1Q16 from $2.6 million in 1Q15 for margins of 4.9% and 7.6%, respectively. Excluding restructuring costs, operating income was $1.8 million in 1Q16 versus $2.6 million in the comparable period in 2015, resulting in margins of 5.3% and 7.8%, respectively. The company showed an effective income tax rate of 37.6%.

Liquidity

The company has a strong balance sheet. Total debt is $1.6 million, tangible equity is $96.9 million, and cash (approximately $3.55 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.8 for the packaging and containers industry.

Cash earnings of $2.7 million and a $5.1 million increase in working capital resulted in $2.4 million cash used in operations in the first three months of 2016. The increase in working capital was primarily due to increases in accounts receivable and prepaid expenses partially offset by a decrease in accrued expenses. Cash used in operations and capital expenditures of $1.6 million were the primary drains on cash resulting in a $4.3 million decrease in cash to $25.5 million as of March 31, 2016.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of March 31, 2016. The credit facility bears interest at LIBOR plus 1.0% to 1.5%, or the bank’s prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The company’s revolving credit facility matures November 30, 2018. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant which the company was in compliance with at March 31, 2016.

UFPT has a $5 million 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was $1.6 million as of March 31, 2016. The loan is secured by the related molded fiber machines.

Risks

In our view, these are the principal risks underlying the stock:

<u>Dependence on a small number of customers</u>
The company’s top ten customers represented approximately 26% of total revenues in 2015. The loss of sales to a large customer would have a material adverse effect on projected financial results.

<u>Competition</u>
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.

<u>Economic conditions</u>
Poor economic conditions could negatively impact sales of the company’s packaging customers.

<u>Environmental considerations</u>
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.

<u>Liquidity</u>
With only 7.2 million shares outstanding and 5.3 million in the float, liquidity issues must be considered. Average daily volume has been approximately 18,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

<u>Miscellaneous</u>
The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Balance Sheets
(in thousands $)

	2013A	2014A	2015A	3/16A	2016E	2017E
Cash and cash equivalents	37,303	34,052	29,804	25,459	36,424	47,886
Receivables	17,032	16,470	17,481	20,376	18,067	19,225
Inventories	11,048	12,893	14,202	13,218	14,972	15,185
Prepaid expenses	690	664	930	2,426	930	930
Refundable income taxes	1,537	3,192	1,186	897	1,186	1,186
Deferred income taxes	1,222	-	-	-	-	-
Total current assets	68,832	67,271	63,603	62,376	71,579	84,412
Net property, plant and equipment	25,507	34,843	46,555	46,870	47,865	49,051
Goodwill	7,322	7,322	7,322	7,322	7,322	7,322
Intangible assets	1,346	953	636	556	318	-
Other assets	2,013	2,159	1,834	1,840	1,840	1,840
Total assets	**105,020**	**112,548**	**119,950**	**118,964**	**128,924**	**142,625**
Current portion of long-term debt	976	993	1,011	1,016	859	-
Accounts payable	3,081	5,398	4,598	4,380	4,847	4,916
Accrued expenses	8,265	5,222	5,374	3,367	5,554	5,910
Total current liabilities	12,322	11,613	10,983	8,763	11,260	10,826
Long-term debt	2,867	1,873	859	603	-	-
Deferred income taxes	2,436	2,446	2,883	2,970	2,970	2,970
Other liabilities	1,805	1,624	1,653	1,868	1,868	1,868
Total liabilities	**19,430**	**17,556**	**16,378**	**14,204**	**16,098**	**15,664**
Total stockholders' equity	**85,590**	**94,992**	**103,572**	**104,760**	**112,826**	**126,961**
Total liabilities & stockholders' equity	**105,020**	**112,548**	**119,950**	**118,964**	**128,924**	**142,625**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2013A	2014A	2015A	2016E	2017E
Net sales	139,223	139,307	138,850	143,503	152,700
Cost of sales	98,574	102,427	101,397	106,896	108,417
Gross profit	40,649	36,880	37,453	36,607	44,283
Extraordinary items	11	1,472	1,731	419	-
SG&A	23,240	23,847	24,009	24,554	25,200
Operating income	17,398	11,561	11,713	11,634	19,083
Non-operating (expenses) income	(205)	204	27	41	40
Income before taxes	17,193	11,765	11,740	11,675	19,123
Income tax	5,917	4,206	4,147	4,126	6,693
Net Income / (Loss)	11,276	7,559	7,593	7,549	12,430
EPS	1.59	1.05	1.05	1.04	1.70
Shares Outstanding	7,105	7,175	7,219	7,289	7,300
Margin Analysis					
Gross margin	29.2%	26.5%	27.0%	25.5%	29.0%
SG&A	16.7%	17.1%	17.3%	17.1%	16.5%
Operating margin	12.5%	8.3%	8.4%	8.1%	12.5%
Pretax margin	12.3%	8.4%	8.5%	8.1%	12.5%
Tax rate	34.4%	35.8%	35.3%	35.3%	35.0%
Year / Year Growth					
Total Revenues	6.3%	0.1%	-0.3%	3.4%	6.4%
Net Income	3.5%	(33.0)%	0.4%	(0.6)%	64.7%
EPS	2.4%	(33.6)%	(0.2)%	(1.5)%	64.4%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2015A - 2017E
(in thousands $)

	3/15A	6/15A	9/15A	12/15A	2015A	3/16A	6/16E	9/16E	12/16E	2016E	3/17E	6/17E	9/17E	12/17E	2017E
Net sales	33,977	36,499	34,441	33,933	138,850	34,503	36,500	37,000	35,500	143,503	36,700	38,800	39,400	37,800	152,700
Cost of sales	25,339	26,206	24,931	24,921	101,397	26,776	27,558	26,825	25,738	106,896	26,057	27,548	27,974	26,838	108,417
Gross profit	8,638	10,293	9,510	9,012	37,453	7,727	8,943	10,175	9,763	36,607	10,643	11,252	11,426	10,962	44,283
Extraordinary items	47	30	851	803	1,731	119	300	-	-	419	-	-	-	-	-
SG&A	6,024	6,776	5,604	5,605	24,009	5,904	6,500	6,100	6,050	24,554	6,150	6,650	6,250	6,150	25,200
Operating income	2,567	3,487	3,055	2,604	11,713	1,704	2,143	4,075	3,713	11,634	4,493	4,602	5,176	4,812	19,083
Non-operating (expenses) income	(24)	8	9	34	27	11	10	10	10	41	10	10	10	10	40
Income before taxes	2,543	3,495	3,064	2,638	11,740	1,715	2,153	4,085	3,723	11,675	4,503	4,612	5,186	4,822	19,123
Income tax	890	1,223	1,072	962	4,147	640	753	1,430	1,303	4,126	1,576	1,614	1,815	1,688	6,693
Net Income / (Loss)	1,653	2,272	1,992	1,676	7,593	1,075	1,399	2,655	2,420	7,549	2,927	2,998	3,371	3,134	12,430
EPS	0.23	0.32	0.28	0.23	1.05	0.15	0.19	0.36	0.33	1.04	0.40	0.41	0.46	0.43	1.70
Shares Outstanding	7,193	7,210	7,230	7,248	7,219	7,255	7,300	7,300	7,300	7,289	7,300	7,300	7,300	7,300	7,300
Margin Analysis															
Gross margin	25.4%	28.2%	27.6%	26.6%	27.0%	22.4%	24.5%	27.5%	27.5%	25.5%	29.0%	29.0%	29.0%	29.0%	29.0%
SG&A	17.7%	18.6%	16.3%	16.5%	17.3%	17.1%	17.8%	16.5%	17.0%	17.1%	16.8%	17.1%	15.9%	16.3%	16.5%
Operating margin	7.6%	9.6%	8.9%	7.7%	8.4%	4.9%	5.9%	11.0%	10.5%	8.1%	12.2%	11.9%	13.1%	12.7%	12.5%
Pretax margin	7.5%	9.6%	8.9%	7.8%	8.5%	5.0%	5.9%	11.0%	10.5%	8.1%	12.3%	11.9%	13.2%	12.8%	12.5%
Tax rate	35.0%	35.0%	35.0%	36.5%	35.3%	37.3%	35.0%	35.0%	35.0%	35.3%	35.0%	35.0%	35.0%	35.0%	35.0%
Year / Year Growth															
Total Revenues	(1.8)%	7.3%	(2.7)%	-3.8%	-0.3%	1.5%	0.0%	7.4%	4.6%	3.4%	6.4%	6.3%	6.5%	6.5%	6.4%
Net Income	(19.8)%	22.2%	(3.6)%	6.7%	0.4%	(35.0)%	(38.4)%	33.3%	44.4%	(0.6)%	172.3%	114.3%	27.0%	29.5%	64.7%
EPS	(20.3)%	21.4%	(4.2)%	5.9%	(0.2)%	(35.5)%	(39.2)%	32.0%	43.3%	(1.5)%	170.6%	114.3%	27.0%	29.5%	64.4%

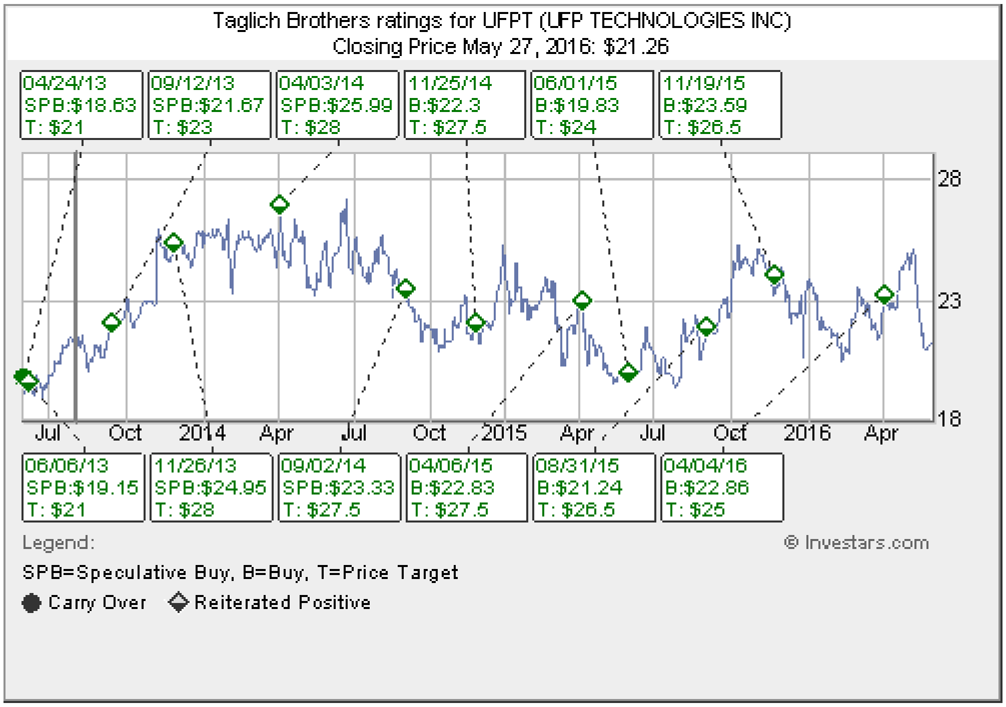
Source: Company filings and Taglich Brothers' estimates

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

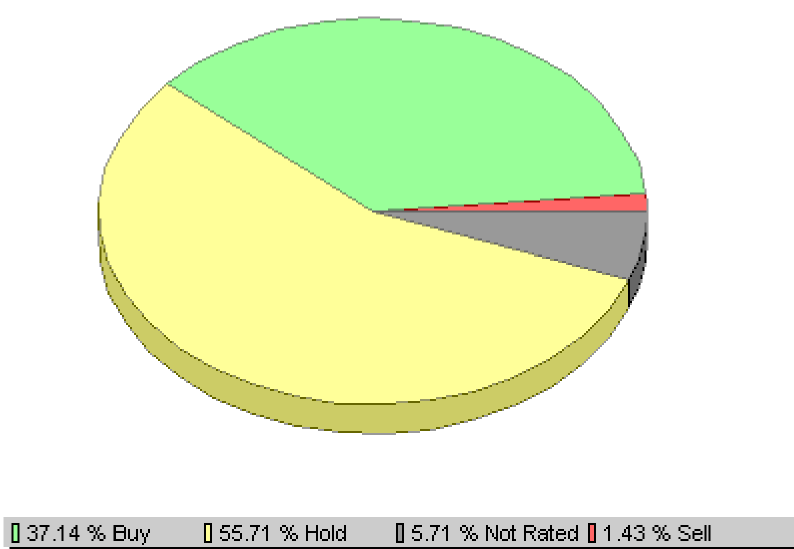
	2013A	2014A	2015A	3mos16A	2016E	2017E
Net income	11,276	7,559	7,593	1,075	7,549	12,430
Depreciation & amortization	4,084	4,376	4,846	1,367	5,008	5,132
(Gain) loss on disposal of property, plant and equipment	11	5	27	(4)	-	-
Share-based compensation	924	1,119	1,069	201	1,200	1,200
Excess tax benefit on share-based compensation	(818)	(1,219)	(356)	-	(356)	(356)
Deferred income taxes	740	1,232	437	87	154	154
Cash earnings	16,217	13,072	13,616	2,726	13,555	18,560
Changes in assets and liabilities						
Receivables	804	562	(1,011)	(2,895)	(586)	(1,158)
Inventories	(1,353)	(1,845)	(1,309)	984	(770)	(213)
Prepaid expenses	(36)	26	(266)	(1,496)	-	-
Refundable income taxes	994	(436)	2,362	289	285	202
Accounts payable	(1,007)	2,317	(800)	(218)	249	69
Accrued expenses and other	1,272	(2,243)	152	(2,007)	180	356
Retirement and other liabilities	(417)	(181)	29	215	215	-
Other assets	(368)	(146)	325	(6)	(6)	-
(Increase) decrease in working capital	(111)	(1,946)	(518)	(5,134)	(433)	(744)
Net Cash Provided by Operations	**16,106**	**11,126**	**13,098**	**(2,408)**	**13,122**	**17,816**
Additions to property, plant and equipment	(5,830)	(13,436)	(16,321)	(1,602)	(6,000)	(6,000)
Redemption of cash value life insurance	37	-	-	-	-	-
Proceeds from sale of property, plant and equipment	1	112	53	4	4	-
Acquisitions	(600)	-	-	-	-	-
Net Cash Used in Investing	**(6,392)**	**(13,324)**	**(16,268)**	**(1,598)**	**(5,996)**	**(6,000)**
Proceeds from long-term borrowings	580	-	-	-	-	-
Repurchases of common stock	-	-	(587)	-	-	-
Tax benefit from exercise of non-qualified stock options	818	1,219	356	-	356	356
Proceeds from exercise of stock options	191	336	358	-	358	358
Payment of statutory withholdings for stock options exercised	(879)	(831)	(209)	(88)	(209)	(209)
Principal repayments of long-term debt	(6,601)	(977)	(996)	(251)	(1,011)	(859)
Payment of contingent note payable	-	(800)	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(5,891)**	**(1,053)**	**(1,078)**	**(339)**	**(506)**	**(354)**
Net Change in Cash	**3,823**	**(3,251)**	**(4,248)**	**(4,345)**	**6,620**	**11,462**
Cash - Beginning of Period	**33,480**	**37,303**	**34,052**	**29,804**	**29,804**	**36,424**
Cash - End of Period	**37,303**	**34,052**	**29,804**	**25,459**	**36,424**	**47,886**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	7
Hold		
Sell		
Not Rated		

Important Disclosures

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

Graphic Packaging (NYSE: GPK)
Packaging Corp. of America (NYSE: PKG)
Greif (NYSE: GEF)
Bemis Company (NYSE: BMS)
Sealed Air Corp. (NYSE: SEE)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.