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
June 1, 2018

UFPT $30.60 — (NASDAQ CM)

	2016A	2017A	2018E	2019E
Revenues (millions)	$146.1	$147.8	$192.9	$207.7
Earnings per share (diluted)	$1.10	$1.26	$1.86	$2.52

52-Week range	$34.00 – $25.88	Fiscal year ends:	December
Shares outstanding as of 5/4/18	7.3 million	Revenue per share (TTM)	$20.90
Approximate float	6.0 million	Price/Sales (TTM)	1.5X
Market capitalization	$223 million	Price/Sales (2019)E	1.1X
Tangible book value/share	$6.94	Price/Earnings (TTM)	25.5X
Price/tangible book	4.4X	Price/Earnings (2019)E	12.1X

UFP Technologies, headquartered in Newburyport, 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 and maintaining our twelve-month price target of $37.00.

In February 2018, UFPT acquired Dielectrics, Inc. for $80 million in cash. Dielectrics designs, develops, and manufactures medical devices using thermoplastic materials. This acquisition should provide a significant increase to UFPT's sales and earnings throughout our forecast horizon.

In 2017, Dielectrics generated sales of approximately $43 million. We anticipate Dielectrics to contribute sales of at least $38.4 million in 2018 and $45.4 million in 2019 driving UFPT's medical sales to over 60% of total sales in 2019. This increase in high margin medical sales is projected to boost margins through our forecast horizon.

We project gross margins of 27% in 2019, up from 25.9% in 2018 and 24% in 2017.

1Q18 revenue (10Q released on 5/10/18) increased 15.9% to $42.9 million with EPS of $0.24, down from $0.30. In the current period, net income included $1.1 million of acquisition costs related to the acquisition of Dielectrics. We projected sales of $44 million and EPS of $0.16.

For 2018, we project revenue growth of 30.5% to $192.9 million (prior was $194 million) and EPS of $1.86 (prior was $1.78). Our forecast reflects 1Q18 results.

For 2019, we project revenue growth of 7.7% to $207.7 million and EPS of $2.52, virtually unchanged from our prior forecast. Growth should be driven by a full year of higher margin medical sales from Dielectrics and lower interest expense as the company continues to pay down debt.

Please view our disclosures on pages 11 - 13.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and maintaining our twelve-month price target of $37.00.

Shares of UFP Technologies continue to trade at a forward discount to its direct competitors (see chart below) due arguably to a lack of recognition of the company's growth potential. With the acquisition of Dielectrics and continued strong growth in medical market sales, we project 35% EPS growth versus 14% for its competitors in 2019.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2019 P/E	Average Projected EPS Growth to 2019
Packaging Corp of America	PKG	117.5	11,086	18.6	13.2	12%
Sealed Air	SEE	43.56	7,020	22.9	15.1	14%
Graphic Packaging	GPK	14.48	4,493	21.0	13.7	22%
Bemis	BMS	42.3	3,848	17.3	13.6	11%
Greif	GEF	58.31	2,906	19.5	15.1	13%
Peer Average				**19.9**	**14.1**	**14%**
Company						
UFP Technologies	**UFPT**	**30.6**	**223**	**25.5**	**12.1**	**35%**
Source: Taglich Brothers estimates, Thomson Reuters						

UFP Technologies 2019 PE multiple is 12.1X based on our EPS projection of $2.52 while its direct competitors trade at a 2019 multiple of 14.1X. We believe UFPT's P/E multiple should expand above its competitors as strong sales and earnings growth is recognized. We applied a multiple of 17X (unchanged) to our 2019 EPS projection of $2.52, discounted to account for execution risk, to obtain a year-ahead value of approximately $37.00 per share.

Business

UFP Technologies, headquartered in Newburyport, 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.

Over 50% of UFPT's 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, aerospace & defense, consumer electronics, and industrial) each account for approximately 6% to 13% of the company's revenue.

Source: UFP Technologies

The company differentiates itself through the design and production of customized products (such as protective cases and custom foam 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

IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 1.3% to $12.9 billion through 2022. Industry growth is predicated on strong overall domestic demand and a positive economic outlook.

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. IBISWorld forecasted medical device industry average annual sales growth of approximately 2.8% to $50.6 billion in 2023 from 2018.

IBISWorld projected sales in the US car and automobile industry to be flat through 2023 reflecting demand for new vehicles to slow due to the release of pent-up demand in prior years.

UFP Technologies makes products used in the packaging of consumer electronics. This market is projected to show strong growth over the next eight years. According to research by Future Market Insights, the worldwide market for consumer electronics is anticipated to grow at a compound annual growth rate of 15% from 2016 to 2026 reaching a value of $3 trillion by the end of the forecast period. Growth will be driven by a significant rise in the purchasing power of consumers, stimulated by an increase in their disposable income.

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, and explosion suppressant foams used in fuel systems of aircrafts. The US Department of Defense's budget requests $686 billion for US defense spending in 2019, $74 billion higher than 2018 and $80 billion higher than 2017. If the 2018 spending bill is signed into law, the fiscal 2018 defense budget could be almost $43 billion higher than what was originally requested. This potential boost in defense spending over the next two years should bode well for UFPT's sales to this market.

Economic Outlook

Since most of the company's revenue is tied to economically sensitive end markets in the US, increasing economic growth should support our revenue forecast to 2019.

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the US.

The IMF raised its economic growth estimate for the US to 2.9% in 2018 and 2.7% in 2019, up from its earlier (January 2018) growth forecast of 2.7% for 2018 and 2.5% for 2019. The upward revision reflects stronger than expected US economic due to firmer external demand, and the expected economic impact from 2018 tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The second estimate of US GDP growth (released on May 30, 2018) showed the US economy grew at an annual rate of 2.2% in 1Q18, down from 2.9% growth in 4Q17. The 1Q18 US GDP growth estimate primarily reflects increases in business investment, consumer spending, exports, government spending, and inventory investment.

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	$4.8B (3/18)	14.9%
Packaging Corp. of America	$6.4B (12/17)	22.8%
Greif	$3.7B (1/18)	19.2%
Bemis Company	$4.1B (3/18)	19.2%
Sealed Air Corp.	$4.5B (12/17)	31.8%
UFP Technologies	$153.7M (3/18)	23.5%

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

The company's February 2018 acquisition of Dielectrics should provide a significant increase to UFPT's sales and earnings throughout our forecast horizon. In 2017, Dielectrics generated sales of approximately $43 million. We anticipate Dielectrics to contribute sales of at least $38.4 million in 2018 and $45.4 million in 2019 driving UFPT's medical sales to over 60% of total sales in 2019. This increase in high margin medical sales is projected to boost margins through our forecast horizon.

The company completed the relocation of certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility in 2017. While over $2 million in one-time expenses have occurred in connection with these consolidations, annual cost savings of $1 million are expected due to reduced real estate and labor costs.

2018 Forecast

For 2018, we project revenue growth of 30.5% to $192.9 million (prior was $194 million) and net income of $13.8 million or $1.86 per share (prior was $13.2 million or $1.78 per share). Our forecast reflects 1Q18 results.

With an increase in higher margin medical sales and the consolidation of manufacturing facilities ended, we project gross margins increasing to 25.9% from 23.7% in 2017. SG&A expenses should increase to $29.1 million from $23.8 million due primarily to the acquisition of Dielectrics. SG&A margins should decrease to 15.1% from 16.1% in 2017. We project operating income growth of 69.5% to $19.8 million with margins increasing to 10.3% from 7.9%. We project a tax rate of 25%.

In 2018, we project $21.4 million cash from operations from cash earnings of $23.6 million and a $2.3 million increase in working capital primarily due to increased receivables and inventories offset in part by increased payables and accruals. The acquisition of Dielectrics resulted in $56 million in debt. Cash from operations and borrowings will not cover capital expenditures, the acquisition, and repayment of debt ($16 million). We project a $21.9 million decrease in cash to $16.1 million at the end of 2018.

2019 Forecast

For 2019, we project revenue growth of 7.7% to $207.7 million and net income of $18.7 million or $2.52 per share, unchanged from our prior forecast. Growth should be driven by a full year of higher margin medical sales from Dielectrics and lower interest expense as the company continues to pay down debt.

We project gross margins increasing to 27% from our 2018 forecast of 25.9% as higher margin medical sales continue to grow. SG&A expenses should increase to $30.3 million from $29.1 million due primarily to increased compensation costs. SG&A margins should decrease to 14.6% from our 2018 forecast of 15.1%. We project operating income growth of 30.3% to $25.8 million with margins increasing to 12.4% from 10.3%. We are maintaining a tax rate of 25%.

In 2019, we project $24.6 million cash from operations from cash earnings of $26.9 million and a $2.3 million increase in working capital primarily due to increased receivables. We project debt repayment of $20 million and $6 million of capital expenditures will decrease cash by $1 million to $15.1 million at the end of 2019.

1Q18 Financial Results

1Q18 - Sales increased 15.9% to $42.9 million with net income of $1.8 million or $0.24 per share, down from $2.2 million or $0.30 per share. Net income in 1Q18 included $1.1 million of costs related to the February 2018 acquisition of Dielectrics. We projected sales of $44 million and net income of $1.2 million or $0.16 per share.

The increase in sales was primarily due to a $6 million contribution from Dielectrics. Sales to customers in the medical and consumer markets grew 38% and 23%, respectively while sales to customers in the automotive market and aerospace and defense markets declined 20% and 19%, respectively. The increase in sales to customers in the medical market was primarily due to Dielectrics, as well as a general increase in demand. The increase in the consumer market was primarily due to sales of molded fiber protective packaging to a new customer. The decline in the automotive market was primarily due to the phase-out of the automotive door panel program for Mercedes-Benz. The decline in the aerospace and defense market was primarily due to the timing of purchase orders.

Gross profit increased to $10.2 million from $9.5 million due primarily to sales growth, offset in part by gross margin contraction to 23.7% from 25.7%. The decrease in gross margins was primarily due to costs incurred at the company’s Georgia plant which had virtually no sales due to the phase-out of the program for Mercedes-Benz and approximately $500,000 in overhead costs. The Georgia plant was closed in April 2018 at the end of the company’s lease. SG&A expenses increased to $6.6 million from $6.3 million due primarily to the acquisition of Dielectrics. Operating income decreased to $2.6 million from $3.2 million in 1Q17. Operating margins decreased to 6% compared to 8.6% in the year ago period. The company had an effective income tax rate of 24.9%.

Liquidity

At March 31, 2018, the company had $7.1 million cash, a current ratio of 3.4X, tangible equity of $51 million, and $49.3 million of debt for a debt/tangible equity ratio of approximately 1X.

In 1Q18, cash used in operations of $2 million consisted of $4.2 million in cash earnings and a $6.1 million increase in working capital. The increase in working capital was primarily due to an increase in receivables and inventories and a decrease in accruals. Cash used in operations and the acquisition of Dielectrics resulted in a $49.3 million net increase in debt. Cash decreased by $30.9 million to $7.1 million as of March 31, 2018.

On February 1, 2018, the company entered into an unsecured $70 million amended and restated credit agreement with Bank of America that matures on February 1, 2023. The credit facilities consist of a $20 million term loan and a $50 million revolving credit facility at an interest rate of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from .25% to zero.

Under the restated credit agreement, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. As of March 31, 2018, the applicable interest rate was 2.88% and the company was in compliance with all covenants.

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 29% of total revenues in 2017. 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 7.3 million shares outstanding and 6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 16,000 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 $)

	2015A	2016A	2017A	3/18A	2018E	2019E
Cash and cash equivalents	29,804	31,359	37,978	7,064	16,079	15,069
Receivables	17,481	21,249	21,381	29,285	27,902	30,038
Inventories	14,202	14,151	12,863	18,258	16,370	17,358
Prepaid expenses	930	2,281	1,835	2,716	2,716	2,716
Refundable income taxes	1,186	807	1,017	776	776	776
Total current assets	63,603	69,847	75,074	58,099	63,843	65,957
Net property, plant and equipment	46,555	48,516	53,652	58,787	58,451	58,631
Goodwill	7,322	7,322	7,322	51,838	51,838	51,838
Intangible assets	636	318	-	23,186	22,232	20,975
Other assets	1,834	1,931	2,159	2,314	2,314	2,314
Total assets	**119,950**	**127,934**	**138,207**	**194,224**	**198,678**	**199,715**
Current portion of long-term debt	1,011	856	-	2,857	2,857	2,857
Deferred revenue	-	-	297	3,130	3,130	3,130
Accounts payable	4,598	4,002	4,180	5,412	5,320	5,641
Accrued expenses	5,374	4,698	5,466	5,540	7,133	7,679
Total current liabilities	10,983	9,556	9,943	16,939	18,440	19,307
Long-term debt	859	-	-	46,429	36,429	16,429
Deferred income taxes	2,883	3,459	2,440	2,620	2,620	2,620
Other liabilities	1,653	1,866	2,112	2,215	2,215	2,215
Total liabilities	**16,378**	**14,881**	**14,495**	**68,203**	**59,704**	**40,571**
Total stockholders' equity	**103,572**	**113,053**	**123,712**	**126,021**	**138,974**	**159,144**
Total liabilities & stockholders' equity	**119,950**	**127,934**	**138,207**	**194,224**	**198,678**	**199,715**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2015A	2016A	2017A	2018E	2019E
Net sales	138,850	146,132	147,842	192,931	207,700
Cost of sales	101,397	111,482	112,355	142,991	151,621
Gross profit	37,453	34,650	35,487	49,940	56,079
Extraordinary items	1,731	(1,692)	(51)	1,029	-
SG&A	24,009	24,105	23,845	29,092	30,260
Operating income	11,713	12,237	11,693	19,819	25,819
Non-operating (expenses) income	27	80	166	(1,448)	(900)
Income before taxes	11,740	12,317	11,859	18,371	24,919
Income tax (benefit)	4,147	4,347	2,649	4,590	6,230
Net Income / (Loss)	7,593	7,970	9,210	13,781	18,689
EPS	1.05	1.10	1.26	1.86	2.52
Shares Outstanding	7,219	7,275	7,337	7,413	7,425
Margin Analysis					
Gross margin	27.0%	23.7%	24.0%	25.9%	27.0%
SG&A	17.3%	16.5%	16.1%	15.1%	14.6%
Operating margin	8.4%	8.4%	7.9%	10.3%	12.4%
Pretax margin	8.5%	8.4%	8.0%	9.5%	12.0%
Tax rate	35.3%	35.3%	22.3%	25.0%	25.0%
Year / Year Growth					
Total Revenues	(0.3)%	5.2%	1.2%	30.5%	7.7%
Net Income	0.4%	5.0%	15.6%	49.6%	35.6%
EPS	(0.2)%	4.2%	14.6%	48.1%	35.4%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2017A - 2019E
(in thousands $)

	3/17A	6/17A	9/17A	12/17A	2017A	3/18A	6/18E	9/18E	12/18E	2018E	3/19E	6/19E	9/19E	12/19E	2019E
Net sales	37,053	37,886	35,684	37,219	147,842	42,931	49,500	50,000	50,500	192,931	51,100	51,650	52,200	52,750	207,700
Cost of sales	27,537	27,945	27,491	29,382	112,355	32,746	36,630	36,750	36,865	142,991	37,303	37,705	38,106	38,508	151,621
Gross profit	9,516	9,941	8,193	7,837	35,487	10,185	12,870	13,250	13,635	49,940	13,797	13,946	14,094	14,243	56,079
Extraordinary items	(5)	(50)	-	4	(51)	1,029	-	-	-	1,029	-	-	-	-	-
SG&A	6,316	6,061	5,693	5,775	23,845	6,592	7,425	7,500	7,575	29,092	7,445	7,525	7,605	7,685	30,260
Operating income	3,205	3,930	2,500	2,058	11,693	2,564	5,445	5,750	6,060	19,819	6,352	6,421	6,489	6,558	25,819
Non-operating (expenses) income	28	29	51	58	166	(198)	(475)	(425)	(350)	(1,448)	(300)	(250)	(200)	(150)	(900)
Income before taxes	3,233	3,959	2,551	2,116	11,859	2,366	4,970	5,325	5,710	18,371	6,052	6,171	6,289	6,408	24,919
Income tax (benefit)	1,062	1,329	856	(599)	2,649	589	1,243	1,331	1,428	4,590	1,513	1,543	1,572	1,602	6,230
Net Income / (Loss)	2,171	2,630	1,695	2,715	9,210	1,777	3,728	3,994	4,283	13,781	4,539	4,628	4,717	4,806	18,689
EPS	0.30	0.36	0.23	0.37	1.26	0.24	0.50	0.54	0.58	1.86	0.61	0.62	0.64	0.65	2.52
Shares Outstanding	7,297	7,323	7,353	7,369	7,337	7,378	7,425	7,425	7,425	7,413	7,425	7,425	7,425	7,425	7,425
Margin Analysis															
Gross margin	25.7%	26.2%	23.0%	21.1%	24.0%	23.7%	26.0%	26.5%	27.0%	25.9%	27.0%	27.0%	27.0%	27.0%	27.0%
SG&A	17.0%	16.0%	16.0%	15.5%	16.1%	15.4%	15.0%	15.0%	15.0%	15.1%	14.6%	14.6%	14.6%	14.6%	14.6%
Operating margin	8.6%	10.4%	7.0%	5.5%	7.9%	6.0%	11.0%	11.5%	12.0%	10.3%	12.4%	12.4%	12.4%	12.4%	12.4%
Pretax margin	8.7%	10.4%	7.1%	5.7%	8.0%	5.5%	10.0%	10.7%	11.3%	9.5%	11.8%	11.9%	12.0%	12.1%	12.0%
Tax rate	32.8%	33.6%	33.6%	35.0%	22.3%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Year / Year Growth															
Total Revenues	7.4%	0.0%	(4.1)%	2.0%	1.2%	15.9%	30.7%	40.1%	35.7%	30.5%	19.0%	4.3%	4.4%	4.5%	7.7%
Net Income	102.0%	(3.8)%	(36.5)%	82.1%	15.6%	(18.1)%	41.7%	135.6%	57.7%	49.6%	155.4%	24.2%	18.1%	12.2%	35.6%
EPS	100.8%	(4.5)%	(36.8)%	80.4%	14.6%	(19.0)%	39.8%	133.3%	56.5%	48.1%	153.8%	24.2%	18.1%	12.2%	35.4%

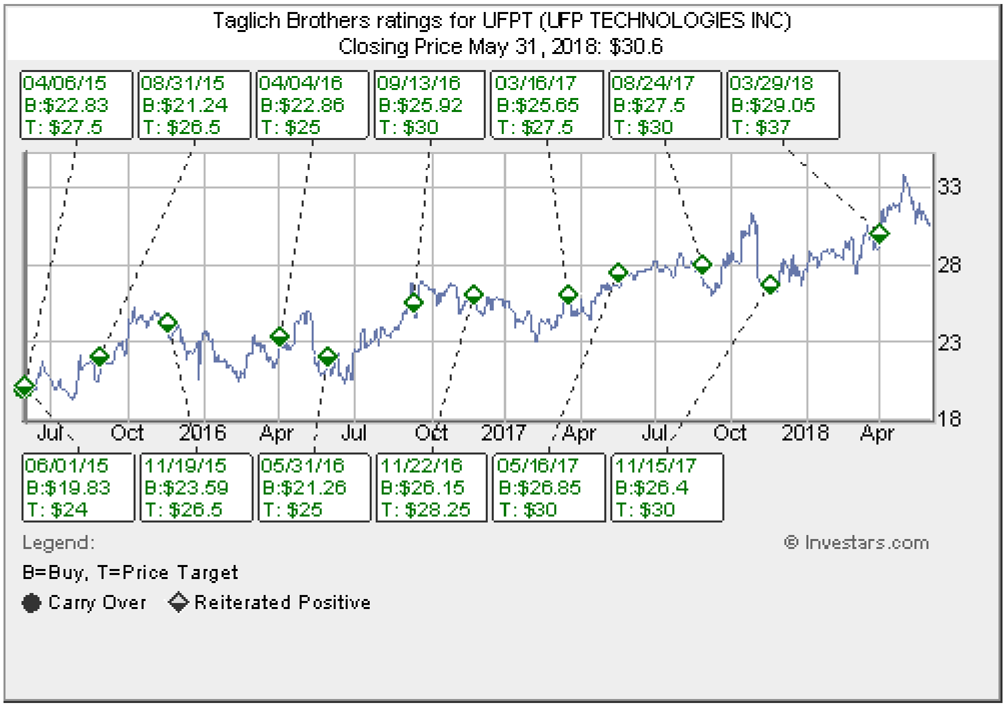
Source: Company filings and Taglich Brothers' estimates

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

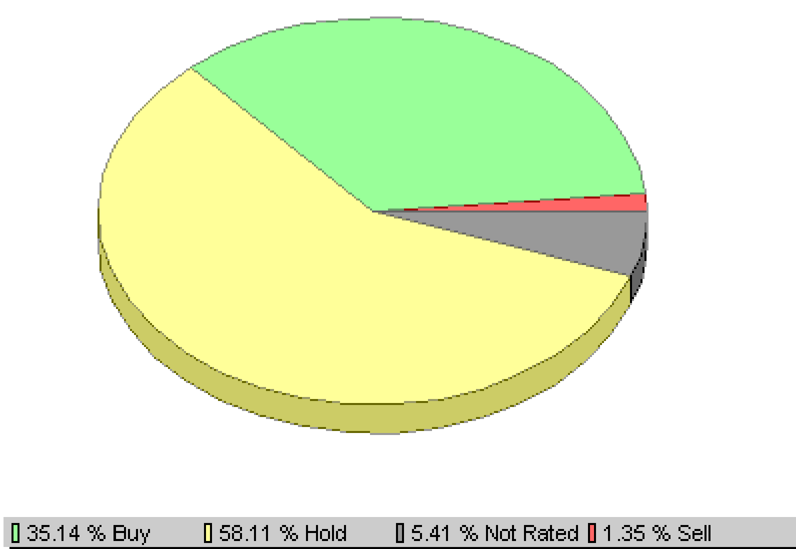
	2015A	2016A	2017A	3m18A	2018E	2019E
Net income	7,593	7,970	9,210	1,777	13,781	18,689
Depreciation & amortization	4,846	5,634	5,635	1,832	6,953	7,077
(Gain) loss on disposal of property, plant and equipment	27	2	7	(40)	(40)	-
Share-based compensation	1,069	1,056	1,068	237	1,100	1,100
Excess tax benefit on share-based compensation	(356)	(145)	-	-	-	-
Deferred income taxes	437	576	(1,019)	346	1,844	-
Cash earnings	13,616	15,093	14,901	4,152	23,638	26,866
Changes in assets and liabilities						
Receivables	(1,011)	(3,768)	(132)	(3,520)	(6,521)	(2,136)
Inventories	(1,309)	51	1,288	(977)	(3,507)	(988)
Prepaid expenses	(266)	(1,351)	446	(759)	(881)	-
Refundable income taxes	2,677	209	(210)	241	241	-
Other assets	325	(97)	(228)	(155)	(155)	-
Accounts payable	(1,379)	(683)	93	(290)	2,803	321
Accrued expenses and other	(163)	(361)	1,065	(1,445)	3,330	546
Deferred revenue	-	-	-	658	2,321	-
Retirement and other liabilities	29	213	246	103	103	-
(Increase) decrease in working capital	(1,097)	(5,787)	2,568	(6,144)	(2,266)	(2,257)
Net Cash Provided by Operations	**12,519**	**9,306**	**17,469**	**(1,992)**	**21,372**	**24,609**
Additions to property, plant and equipment	(15,742)	(7,206)	(10,382)	(1,494)	(6,000)	(6,000)
Cash paid for acquisitions (net)	-	-	-	(76,978)	(76,978)	-
Proceeds from sale of fixed assets	53	14	7	40	40	-
Net Cash Used in Investing	**(15,689)**	**(7,192)**	**(10,375)**	**(78,432)**	**(82,938)**	**(6,000)**
Proceeds from line of credit	-	-	-	36,000	36,000	-
Payments on line of credit	-	-	-	(6,000)	(12,000)	(13,000)
Proceeds from long-term borrowings	-	-	-	20,000	20,000	-
Payments on long-term borrowings	-	-	-	-	(4,000)	(7,000)
Repurchases of common stock	(587)	-	-	-	-	-
Tax benefit from exercise of non-qualified stock options	356	145	-	-	-	-
Proceeds from exercise of stock options	358	529	677	368	677	677
Payment of statutory withholdings for stock options exercised	(209)	(219)	(296)	(144)	(296)	(296)
Principal repayments of long-term debt	(996)	(1,014)	(856)	(714)	(714)	-
Net Cash Provided by (Used in) Financing	**(1,078)**	**(559)**	**(475)**	**49,510**	**39,667**	**(19,619)**
Net Change in Cash	**(4,248)**	**1,555**	**6,619**	**(30,914)**	**(21,899)**	**(1,010)**
Cash - Beginning of Period	**34,052**	**29,804**	**31,359**	**37,978**	**37,978**	**16,079**
Cash - End of Period	**29,804**	**31,359**	**37,978**	**7,064**	**16,079**	**15,069**

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	3	12
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.