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
March 16, 2017

UFPT $25.65 — (NASDAQ CM)

	2015A	2016A	2017E	2018E
Revenues (millions)	$138.9	$146.1	$153.4	$164.0
Earnings per share (diluted)	$1.05	$1.10	$1.17	$1.72

52-Week range	$27.50 – $20.40	Fiscal year ends:	December
Shares outstanding as of 3/2/17	7.2 million	Revenue per share (TTM)	$20.09
Approximate float	5.9 million	Price/Sales (TTM)	1.3X
Market capitalization	$185 million	Price/Sales (2018)E	1.1X
Tangible book value/share	$14.62	Price/Earnings (TTM)	23.3X
Price/tangible book	1.8X	Price/Earnings (2018)E	14.9X

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. Lowering twelve-month price target to $27.50 from $28.25 previously due primarily to diminished valuation.

Continued growth in medical market sales (albeit slower than the 13% growth seen in 2016), and potential defense/aerospace market sales growth fueled by increased defense spending, should help drive growth in UFPT's sales through our forecast horizon.

Although costs associated with plant consolidations are higher than previously expected and have once again resulted in lowered gross margin projections, the eventual $1 million annual cost savings from these consolidations should drive gross margins from 23.7% in 2016, to 24.5% in 2017 and 27% in 2018.

For 2017, we project revenue growth of 5% to $153.4 million and EPS of $1.17 per share, down from $155.3 million in revenue and EPS of $1.57 to reflect slower growth in medical sales and lower gross margins than previously projected.

For 2018, we project revenue growth of 7% to $164 million and EPS of $1.72. Revenue growth should be driven by continued growth in medical market sales and increased defense/aerospace segment sales fueled by increased defense spending.

4Q16 revenue (10-K released 3/10/17) increased 8% to $36.5 million. EPS decreased to $0.20 from $0.23. Excluding $216,000 or $0.03 per share of restructuring costs, 4Q16 EPS would have been $0.22. We projected 4Q16 sales of $35.5 million and EPS of $0.23.

2016 revenue increased 5% to $146.1 million. EPS increased to $1.10 from $1.05 in 2015. Excluding $2.1 million of material overcharge settlement gains, EPS was $0.91 in 2016.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

We are reiterating our Buy rating on UFP Technologies. Lowering our twelve-month price target to $27.50 from $28.25 previously due primarily to diminished valuation.

Shares of UFPT currently trade at a forward earnings multiple of 15X, down from 17X four months earlier. The company's direct competitors are trading at an average forward multiple of 15X earnings. We believe the decrease in UFPT's valuation is primarily due to the continuing pressure on gross margins. In light of UFPT's diminished valuation, we have lowered our multiple from 18X to 16X forward earnings. Applying a multiple of 16X to our 2018 EPS projection of $1.72, our year-ahead target is approximately $27.50.

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 44% 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 7% 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

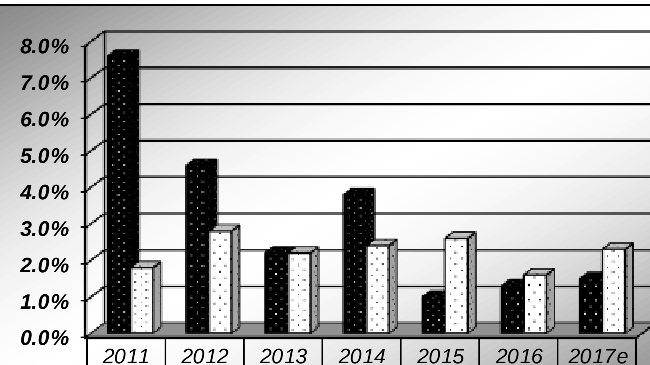
In May 2016, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 2.3% to $12.9 billion through 2022. Industry growth is predicated on strong overall domestic demand. Demand for automobiles is expected to increase purchases of urethane used in seats and vehicle 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 January 2017, IBISWorld forecasted medical device industry average annual sales growth of approximately 3% to $50.4 billion during the six years to 2022.

In November 2016, IBISWorld projected the US car and automobile industry to show average annual sales growth of 2.1% to $132.3 billion in the six years to 2022. Growth will be driven by renewed consumer spending and a move toward green (hybrid and electric fuel-efficient) vehicles.



	2011	2012	2013	2014	2015	2016	2017e
US CE Sales Growth	7.6%	4.6%	2.2%	3.8%	1.0%	1.3%	1.5%
US GDP Growth	1.8%	2.8%	2.2%	2.4%	2.6%	1.6%	2.3%

Source: Consumer Technology Association; International Monetary Fund

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 six years with projections to 2017.

In January 2017, The Consumer Technology Association forecasted US consumer electronics retail sales to grow at an annual rate of approximately 1.5% to $292.5 billion in 2017. Growth will be driven by technologies such as smart home devices and televisions.

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 Pentagon's latest budget of $556.7 billion for US defense spending in 2018 is $32.8 billion higher than 2017 and $35 billion higher than 2016. However, President Trump's first budget proposal is looking to further increase defense spending by $30 billion in 2017 and $54 billion in 2018. This boost in defense spending over the next two years, if implemented, might 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 January 2017, the International Monetary Fund (IMF) raised its economic growth estimate for the US to 2.3% in 2017 and 2.5% in 2018, up from an earlier (October 2016) growth forecast of 2.2% for 2017 and 2.1% for 2018. The IMF attributed the upward revision to the assumption that fiscal stimulus will spur growth.

The second estimate of US GDP growth (released on February 28, 2017) showed the US economy grew at an annual rate of 1.9% in 4Q16, down from 3.5% growth in 3Q16. The 4Q16 US GDP growth estimate primarily reflects a rise in consumer spending, private inventory investment, and state and local government spending. Partly offsetting these contributions to GDP growth were declines in exports and federal 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	$4.3B (12/16)	18.4%
Packaging Corp. of America	$5.8B (12/16)	22.1%
Greif	$3.4B (1/17)	20.3%
Bemis Company	$4.0B (12/16)	21.7%
Sealed Air Corp.	$6.8B (12/16)	37.3%
UFP Technologies	$146.1M (12/16)	23.7%

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. However, UFPT's TTM gross margins have narrowed significantly. 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 at its Newburyport, Massachusetts, facility and other UFPT facilities. UFPT also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts facilities to its Newburyport, Massachusetts, facility in 2015.

The company substantially completed the relocation of certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility by the end of 4Q16. Approximately $2.1 million in one-time expenses have occurred in connection with these consolidations through December 31, 2016. Annual cost savings from these consolidations, primarily in reduced real estate and labor costs, should be approximately $1 million.

2017 Forecast

For 2017, we project revenue growth of 5% to $153.4 million and net income of $8.5 million or $1.17 per share. Our projections are down from $155.3 million in revenue and earnings of $11.5 million or $1.57 per share previously to reflect slower growth in medical sales and lower gross margins than previously projected. Although growth in UFPT's revenue should be driven primarily by medical market sales in 2017, we do not expect the rate of growth in that segment's sale's to be as robust as it was in 2016 when growth was aided by the first full year of contribution from a large medical market contract (five-year contract worth an estimated $45 million). We lowered our gross margin estimates to 24.5% from 27.3% previously as current manufacturing inefficiencies may take some time to diminish. Helping to offset the downward pressure on margins should be better pricing afforded by a five-year deal with Zotefoams granting UFPT exclusive access to certain medical grade foams.

SG&A expenses should increase to $24.6 million from $24.1 million in 2016 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16% from 16.5%. Operating income is projected to increase to $13.1 million from $12.2 million with margins increasing to 8.5% from 8.4%. Taxes are estimated at 35%.

In 2017, we project $14.1 million cash from operations from cash earnings of $15.2 million and a $1.1 million increase in working capital. The increase in working capital is primarily due to an increase in receivables. Cash from operations should cover capital expenditures and repayment of long-term debt, increasing cash by $7.7 million to $39.1 million at the end of 2017.

2018 Forecast

For 2018, we project revenue growth of 7% to $164 million and net income of $12.6 million or $1.72 per share. Revenue growth should be driven by continued growth in medical market sales and increased defense/aerospace segment sales fueled by increased defense spending.

With consolidation issues behind them, we project gross margins increasing to 27% from 24.5% in 2017. SG&A expenses should increase to $25 million from $24.6 million in 2017 due primarily to increased compensation costs. SG&A margins are projected to decrease to 15.2% from 16%. Operating income is projected to increase to $19.3 million from $13.1 million with margins increasing to 11.8% from 8.5%. Taxes are estimated at 35%.

In 2018, we project $17.6 million cash from operations from cash earnings of $19 million and a $1.4 million increase in working capital. The increase in working capital is primarily due to an increase in receivables. Cash from operations should cover any capital expenditures, increasing cash by $12 million to $51.1 million at the end of 2018.

4Q and FY 2016 Financial Results

4Q16 **-** Sales increased 8% to $36.5 million. Net income decreased to $1.5 million or $0.20 per share from $1.7 million or $0.23 per share. Excluding $216,000 or $0.03 per share of restructuring costs, net income would have been $1.6 million or $0.22 per share. We projected 4Q16 sales of $35.5 million and net income of $1.7 million or $0.23 per share.

The increase in sales was primarily due to increased sales to the consumer, automotive, and medical markets partially offset by decreased sales to the industrial and electronics markets. Increased demand for molded fiber protective packaging and a five-year contract with one of the company's larger customers in the medical market were the primary drivers of sales.

Gross margins decreased to 22.4% from 26.6% primarily due to temporary manufacturing inefficiencies associated with recent plant consolidations and the hiring of temporary employees for requalifying parts for many of the company's medical customers. SG&A expenses increased to $5.7 million from $5.6 million primarily due to one-time consulting and recruiting costs associated with filling open positions and training. Operating income decreased to $2.3 million in 4Q16 from $2.6 million in 4Q15 for margins of 6.2% and 7.7%, respectively. The company showed an effective income tax rate of 34.8%.

FY 2016 **-** Sales increased 5% to $146.1 million. Net income increased to $8 million or $1.10 per share from $7.6 million or $1.05 per share. Excluding $2.1 million of material overcharge settlement gains, net income was $6.6 million or $0.91 per share.

The increase in sales was primarily a result of increased sales to the medical and consumer markets partially offset by decreased sales to the electronics and aerospace & defense markets. Medical market sales benefitted from a five-year contract with one of the company's larger customers in this market as well as increased demand from other medical customers. The increase in sales to the consumer market was largely due to increased demand for molded fiber protective packaging. Aerospace & defense market sales suffered from continued cuts in government spending. The decrease in sales to the electronics market was primarily due to a temporary spike in demand for packaging from one of the company's larger customers in 2015.

Gross margins decreased to 23.7% from 27% primarily due to increased material and labor costs as a result of recent plant consolidations.

SG&A expenses increased to $24.1 million from $24 million due primarily to increased recruiting costs. Restructuring costs associated with the company's plant consolidations (included in extraordinary items) were $420,000.

Operating income increased to $12.2 million from $11.7 million while margins remained at 8.4%. Excluding the material overcharge settlement in 2016, operating income was $10.1 million for a margin of 6.9%. The company showed an effective income tax rate of 35.3%.

Liquidity

The company has a strong balance sheet. Total debt is $856,000, tangible equity is $105.4 million, and cash (approximately $4.35 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.9 for the packaging and containers industry.

Cash earnings of $15.1 million and a $5.7 million increase in working capital resulted in $9.4 million cash provided by operations in 2016. The increase in working capital was primarily due to increases in receivables and prepaid expenses. Cash provided by operations covered $7.3 million of capital expenditures and a $1 million repayment of debt resulting in a $1.6 million increase in cash to $31.4 million as of December 31, 2016.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of December 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 December 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 $856,000 as of December 31, 2016. The loan is secured by the related molded fiber machines.

Risks

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

Dependence on a small number of customers
The company's top ten customers represented approximately 28% of total revenues in 2016. The loss of sales to a large customer would have a material adverse effect on projected financial results.

Competition
The packaging and component products industries are highly competitive. The company's primary competition for its packaging products has been from smaller independent regional manufacturers. UFPT's component products face competition from smaller companies that typically concentrate on production of component products for specific industries.

Economic conditions
Poor economic conditions could negatively impact sales of the company's packaging customers.

Environmental considerations
Future government action may impose restrictions affecting the industries in which the company operates. There can be no assurance that any such action will not adversely impact UFP Technologies.

Liquidity
With only 7.2 million shares outstanding and 5.9 million in the float, liquidity issues must be considered. Average daily volume has been approximately 26,000 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 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 $)

	2014A	2015A	2016A	2017E	2018E
Cash and cash equivalents	34,052	29,804	31,359	39,082	51,106
Receivables	16,470	17,481	21,249	22,306	23,847
Inventories	12,893	14,202	14,151	14,698	15,197
Prepaid expenses	664	930	2,281	2,281	2,281
Refundable income taxes	3,192	1,186	807	807	807
Deferred income taxes	-	-	-	-	-
Total current assets	67,271	63,603	69,847	79,174	93,237
Net property, plant and equipment	34,843	46,555	48,516	49,127	49,674
Goodwill	7,322	7,322	7,322	7,322	7,322
Intangible assets	953	636	318	-	-
Other assets	2,159	1,834	1,931	1,931	1,931
Total assets	**112,548**	**119,950**	**127,934**	**137,554**	**152,164**
Current portion of long-term debt	993	1,011	856	-	-
Accounts payable	5,398	4,598	4,002	4,157	4,298
Accrued expenses	5,222	5,374	4,698	4,932	5,272
Total current liabilities	11,613	10,983	9,556	9,088	9,570
Long-term debt	1,873	859	-	-	-
Deferred income taxes	2,446	2,883	3,459	3,459	3,459
Other liabilities	1,624	1,653	1,866	1,866	1,866
Total liabilities	**17,556**	**16,378**	**14,881**	**14,413**	**14,895**
Total stockholders' equity	**94,992**	**103,572**	**113,053**	**123,140**	**137,269**
Total liabilities & stockholders' equity	**112,548**	**119,950**	**127,934**	**137,554**	**152,164**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2014A	2015A	2016A	2017E	2018E
Net sales	139,307	138,850	146,132	153,400	164,000
Cost of sales	102,427	101,397	111,482	115,788	119,720
Gross profit	36,880	37,453	34,650	37,612	44,280
Extraordinary items	1,472	1,731	(1,692)	-	-
SG&A	23,847	24,009	24,105	24,550	25,000
Operating income	11,561	11,713	12,237	13,062	19,280
Non-operating (expenses) income	204	27	80	80	80
Income before taxes	11,765	11,740	12,317	13,142	19,360
Income tax	4,206	4,147	4,347	4,600	6,776
Net Income / (Loss)	7,559	7,593	7,970	8,542	12,584
EPS	1.05	1.05	1.10	1.17	1.72
Shares Outstanding	7,175	7,219	7,275	7,300	7,300
Margin Analysis					
Gross margin	26.5%	27.0%	23.7%	24.5%	27.0%
SG&A	17.1%	17.3%	16.5%	16.0%	15.2%
Operating margin	8.3%	8.4%	8.4%	8.5%	11.8%
Pretax margin	8.4%	8.5%	8.4%	8.6%	11.8%
Tax rate	35.8%	35.3%	35.3%	35.0%	35.0%
Year / Year Growth					
Total Revenues	0.1%	(0.3)%	5.2%	5.0%	6.9%
Net Income	(33.0)%	0.4%	5.0%	7.2%	47.3%
EPS	(33.6)%	(0.2)%	4.2%	6.8%	47.3%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2016A - 2018E
(in thousands $)

	3/16A	6/16A	9/16A	12/16A	2016A	3/17E	6/17E	9/17E	12/17E	2017E	3/18E	6/18E	9/18E	12/18E	2018E
Net sales	34,503	37,902	37,220	36,505	146,132	36,200	39,750	39,100	38,350	153,400	38,700	42,500	41,800	41,000	164,000
Cost of sales	26,776	27,607	28,768	28,321	111,482	27,874	30,210	29,325	28,379	115,788	28,251	31,025	30,514	29,930	119,720
Gross profit	7,727	10,295	8,452	8,184	34,650	8,326	9,540	9,775	9,971	37,612	10,449	11,475	11,286	11,070	44,280
Extraordinary items	119	(368)	(1,656)	222	(1,692)	-	-	-	-	-	-	-	-	-	-
SG&A	5,904	6,470	6,027	5,704	24,105	5,800	6,350	6,250	6,150	24,550	5,900	6,500	6,350	6,250	25,000
Operating income	1,704	4,193	4,081	2,258	12,237	2,526	3,190	3,525	3,821	13,062	4,549	4,975	4,936	4,820	19,280
Non-operating (expenses) income	11	15	25	29	80	20	20	20	20	80	20	20	20	20	80
Income before taxes	1,715	4,208	4,106	2,287	12,317	2,546	3,210	3,545	3,841	13,142	4,569	4,995	4,956	4,840	19,360
Income tax	640	1,473	1,437	796	4,347	891	1,124	1,241	1,344	4,600	1,599	1,748	1,735	1,694	6,776
Net Income / (Loss)	1,075	2,735	2,669	1,491	7,970	1,655	2,087	2,304	2,497	8,542	2,970	3,247	3,221	3,146	12,584
EPS	0.15	0.38	0.37	0.20	1.10	0.23	0.29	0.32	0.34	1.17	0.41	0.44	0.44	0.43	1.72
Shares Outstanding	7,255	7,271	7,312	7,300	7,275	7,300	7,300	7,300	7,300	7,300	7,300	7,300	7,300	7,300	7,300
Margin Analysis															
Gross margin	22.4%	27.2%	22.7%	22.4%	23.7%	23.0%	24.0%	25.0%	26.0%	24.5%	27.0%	27.0%	27.0%	27.0%	27.0%
SG&A	17.1%	17.1%	16.2%	15.6%	16.5%	16.0%	16.0%	16.0%	16.0%	16.0%	15.2%	15.3%	15.2%	15.2%	15.2%
Operating margin	4.9%	11.1%	11.0%	6.2%	8.4%	7.0%	8.0%	9.0%	10.0%	8.5%	11.8%	11.7%	11.8%	11.8%	11.8%
Pretax margin	5.0%	11.1%	11.0%	6.3%	8.4%	7.0%	8.1%	9.1%	10.0%	8.6%	11.8%	11.8%	11.9%	11.8%	11.8%
Tax rate	37.3%	35.0%	35.0%	34.8%	35.3%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Year / Year Growth															
Total Revenues	1.5%	3.8%	8.1%	7.6%	5.2%	4.9%	4.9%	5.1%	5.1%	5.0%	6.9%	6.9%	6.9%	6.9%	6.9%
Net Income	(35.0)%	20.4%	34.0%	(11.0)%	5.0%	53.9%	(23.7)%	(13.7)%	67.4%	7.2%	79.5%	55.6%	39.8%	26.0%	47.3%
EPS	(35.5)%	19.4%	32.5%	(11.7)%	4.2%	53.0%	(24.0)%	(13.5)%	67.4%	6.8%	79.5%	55.6%	39.8%	26.0%	47.3%

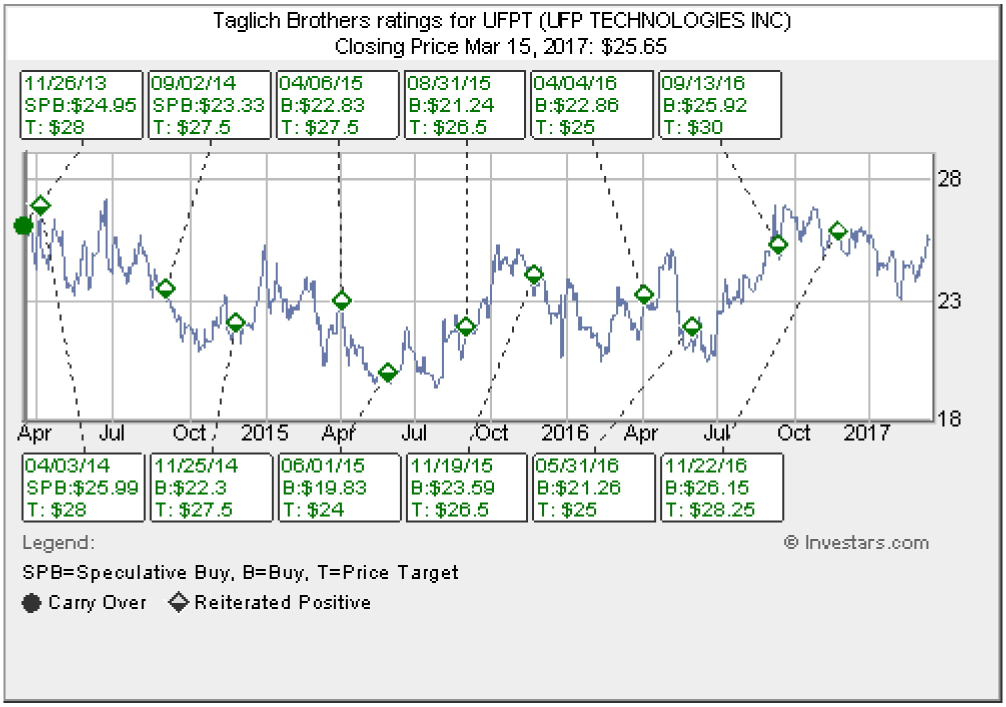
Source: Company filings and Taglich Brothers' estimates

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

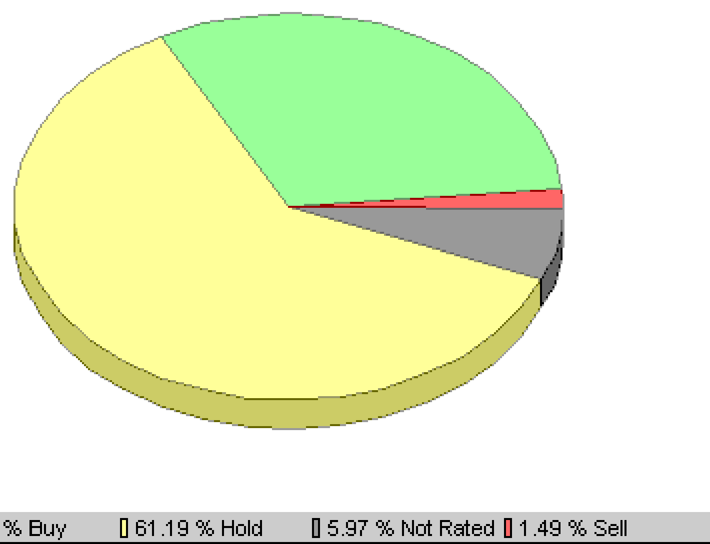
	2014A	2015A	2016A	2017E	2018E
Net income	7,559	7,593	7,970	8,542	12,584
Depreciation & amortization	4,376	4,846	5,634	5,707	5,453
(Gain) loss on disposal of property, plant and equipment	5	27	2	-	-
Share-based compensation	1,119	1,069	1,056	1,100	1,100
Excess tax benefit on share-based compensation	(1,219)	(356)	(145)	(145)	(145)
Deferred income taxes	1,232	437	576	-	-
Cash earnings	13,072	13,616	15,093	15,204	18,992
Changes in assets and liabilities					
Receivables	562	(1,011)	(3,768)	(1,057)	(1,541)
Inventories	(1,845)	(1,309)	51	(547)	(499)
Prepaid expenses	26	(266)	(1,351)	-	-
Refundable income taxes	(436)	2,362	209	145	145
Accounts payable	2,317	(800)	(596)	155	141
Accrued expenses and other	(2,243)	152	(361)	234	341
Retirement and other liabilities	(181)	29	213	-	-
Other assets	(146)	325	(97)	-	-
(Increase) decrease in working capital	(1,946)	(518)	(5,700)	(1,070)	(1,414)
Net Cash Provided by Operations	**11,126**	**13,098**	**9,393**	**14,134**	**17,578**
Additions to property, plant and equipment	(13,436)	(16,321)	(7,293)	(6,000)	(6,000)
Redemption of cash value life insurance	-	-	-	-	-
Proceeds from sale of property, plant and equipment	112	53	14	-	-
Acquisitions	-	-	-	-	-
Net Cash Used in Investing	**(13,324)**	**(16,268)**	**(7,279)**	**(6,000)**	**(6,000)**
Proceeds from long-term borrowings	-	-	-	-	-
Repurchases of common stock	-	(587)	-	-	-
Tax benefit from exercise of non-qualified stock options	1,219	356	145	145	145
Proceeds from exercise of stock options	336	358	529	500	500
Payment of statutory withholdings for stock options exercised	(831)	(209)	(219)	(200)	(200)
Principal repayments of long-term debt	(977)	(996)	(1,014)	(856)	-
Payment of contingent note payable	(800)	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(1,053)**	**(1,078)**	**(559)**	**(411)**	**445**
Net Change in Cash	**(3,251)**	**(4,248)**	**1,555**	**7,723**	**12,023**
Cash - Beginning of Period	**37,303**	**34,052**	**29,804**	**31,359**	**39,082**
Cash - End of Period	**34,052**	**29,804**	**31,359**	**39,082**	**51,106**

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	1	100
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.