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, 2015

UFPT $19.83 — (NASDAQ CM)

	2013A	2014A	2015E	2016E
Revenues (millions)	$139.2	$139.3	$140.0	$146.0
Earnings per share (diluted)	$1.59	$1.05	$1.13	$1.72

52-Week range	$27.43 – $19.45	Fiscal year ends:	December
Shares outstanding as of 5/4/15	7.1 million	Revenue per share (TTM)	$19.30
Approximate float	5.7 million	Price/Sales (TTM)	1.0X
Market capitalization	$141 million	Price/Sales (2016)E	1.0X
Tangible book value/share	$12.51	Price/Earnings (TTM)	20.0X
Price/tangible book	1.6X	Price/Earnings (2016)E	11.5X

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

Key investment considerations:

Reiterating our Buy rating but lowering twelve-month price target to $24.00 (from $27.50) due to diminished valuation stemming from a reduction in earnings expectations.

An aging population, increasing automotive demand, and innovation in electronic products should drive growth in UFPT's principal end markets over the next five years.

Plant consolidations in 2014 (in California and Michigan) and 1Q15 (Massachusetts) will cut costs by approximately $1.7 million annually driving gross margin improvement to 30% by 2016 from 26.5% in 2014.

For 2015, we project revenue of $140 million ($142 million previously) and EPS of $1.13 ($1.23 previously). Our lower projections primarily reflect 1Q15 results and the short-term adverse effect of the Massachusetts consolidation (expected to be completed on or before October 31, 2015) on sales and margins.

For 2016, we project revenue of $146 million ($147.7 million previously) and EPS of $1.72 ($1.76 previously). Our lower projections are primarily due to weaker sales than previously projected in most of the company's end markets (excludes medical – the company's largest and fastest growing end market). A full year of cost savings from the 2015 plant consolidation should widen gross margins.

1Q15 revenue (10-Q released 5/8/15) decreased 2% to $34 million and EPS decreased to $0.23 from $0.29 due primarily to lower sales to the defense and consumer markets. We projected 1Q15 revenue of $34.6 million and EPS of $0.26.

Please view our disclosures on pages 11 - 13.

Recommendation and Valuation

We are reiterating our **Buy** rating on UFP Technologies but lowering our **twelve-month price target to $24.00** (from $27.50) due to diminished valuation stemming from a reduction in earnings expectations.

Shares of UFPT currently trade at a trailing price to earnings multiple of 20X. The company's direct competitors are trading at an average multiple of 21X TTM earnings (excludes Graphic Packaging's 44X multiple and Sealed Air's 37X multiple). We have lowered our earnings multiple expectation to 15X (previously we projected a multiple of 17X) in conjunction with the reduction in our earnings estimates. Applying a multiple of 15X to our 2016 earnings estimate of $1.72 per share discounted (by 9% for market and economic risks) to a twelve-month value of $1.61 gives us a price target of approximately $24.00.

Business

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures packaging products for the medical, automotive, aerospace and defense, and packaging 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 36% 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 January 2015, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 2.6% to $11.1 billion through 2021. However, UFP Technologies' revenue should grow at a higher rate reflecting faster end market growth driven by an aging population, increasing automotive demand, and innovative new electronics products.

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) has created a degree of uncertainty for medical device companies. Healthcare reform has tightened the pricing environment for these companies and may pressure pricing across the board. However, PPAC may benefit the industry as it aims to increase the number of insured people, driving increased usage of medical devices.

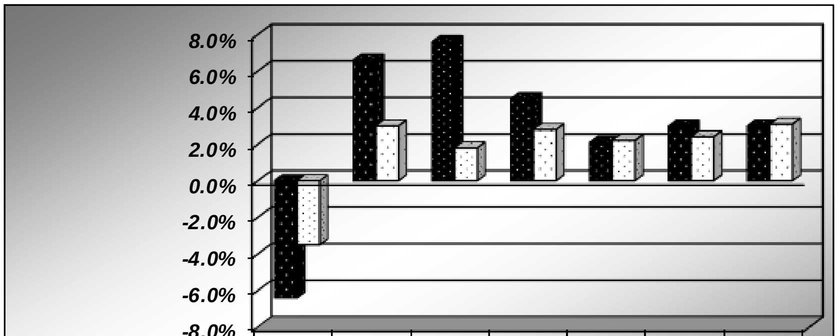
In July 2014, the Centers for Medicare and Medicaid Services announced a second round of the competitive bidding program on durable medical equipment that went into effect in July 2013. The bidding program resulted in an average 45% reduction in Medicare payment amounts for Medical equipment and supplies. Reduced pricing for medical equipment could have an adverse effect on prices medical equipment manufacturers are willing to pay for packaging products. However, UFPT's sales to the medical market has not yet been adversely affected from this as evidenced by the 13% increase in 1Q15 medical market sales.

The Patient Protection and Affordable Care Act imposed a 2.3% excise tax on the sale price of medical devices effective January 1, 2013. In May 2015, a group of Democrats in the US House of Representatives urged House leaders to pass a bill that would repeal the medical device excise tax. The 2.3% tax is on revenue, not income.

In February 2015, IBISWorld forecasted medical device industry average annual sales growth of approximately 6.1% to $57 billion during the six years to 2021.

In February 2015, IBISWorld projected the US car and automobile industry to show average annual sales growth of 2.3% to $122 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 six years with projections for 2015.



	2009	2010	2011	2012	2013	2014	2015e
US CE Sales Growth	-6.4%	6.6%	7.6%	4.5%	2.1%	3.0%	3.0%
US GDP Growth	-3.5%	3.0%	1.8%	2.8%	2.2%	2.4%	3.1%

Source: Consumer Electronics Association; International Monetary Fund

In January 2015, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.4% to $84 billion during the six years to 2021. This growth will be driven by technologies such as tablet computers and e-readers and consumer spending.

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. US defense spending increased by 1% in 2014, is projected to decline by 3% in 2015, and increase by 4% in 2016 according to the most recent US Department of Defense budget request (February 2015). This fluctuation in defense spending over the next two years is likely to limit UFPT's sales to this market.

Economic Outlook

Most of UFPT's sales are to economically sensitive end markets.

In April 2015, the International Monetary Fund (IMF) maintained its global economic growth forecast at 3.5% for 2015 but lowered its 2016 forecast to 3.8%, down from an earlier (January 2015) growth forecast of 3.9%. The lower growth estimate reflects downward pressure from emerging markets in countries such as Russia, Brazil, and the rest of Latin America.

The IMF lowered its economic growth estimate for the US to 3.1% for 2015 and 2016, down from 3.6% in 2015 (January 2015) and 3.3% in 2016. The IMF said that US growth should be driven by domestic demand supported by low oil prices. In April 2015, the US GDP advance estimate showed the US economy grew at an annual rate of 0.2% in 1Q15. 1st quarter GDP was adversely affected by a strengthening US dollar which resulted in a widening trade deficit and severe weather impacting several regions. For all of 2014, the US economy grew at a rate of 2.4%, in line with the latest figures from the IMF.

As the company sells 95% of its products in the US, a growing US economy should bode well for sales of the company's products through our forecast horizon.

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 at right.

Company	Sales TTM	Gross Margin
Graphic Packaging	$4.2B (3/15)	18.8%
Packaging Corp. of America	$5.9B (3/15)	21.0%
Greif	$4.1B (1/15)	19.6%
Bemis Company	$4.3B (3/15)	20.0%
Sealed Air Corp.	$7.7B (3/15)	35.1%
UFP Technologies	$138.7M (3/15)	26.6%

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

2015 Forecast

For 2015, we project revenue of $140 million ($142 million previously) and net income of $8.2 million or $1.13 per share (previously $8.9 million or $1.23 per share). Excluding the $1 million one-time costs associated with plant consolidations, EPS would be approximately $1.22. Our lower projections primarily reflect 1Q15 results and the short-term adverse effect the Massachusetts consolidation (ceasing operations at the Raritan, New Jersey plant and consolidating operations into its Newburyport, Massachusetts facility) will have on sales and margins. In 1Q15, the company acquired a commercial building in Newburyport, Massachusetts for approximately $6.8 million. UFPT expects cost savings of approximately $400,000 annually as a result of this consolidation which is expected to be completed on or before October 31, 2015. Combined with the 2014 consolidations (in California and Michigan), cost savings are projected to be approximately $1.7 million annually.

SG&A expenses should increase to $24.2 million from $23.8 million in 2014 due primarily to increased compensation costs offset in part by the absence of over $300,000 of costs associated with a one-time write-off of bad debt and increased employee healthcare costs stemming from more frequent large claims. SG&A margins are projected to increase to 17.3%. Operating income is projected to increase to $12.4 million from $11.6 million with margins increasing to 8.9% from 8.3%. Taxes are estimated at 35%.

In 2015, we project $14.6 million cash from operations consisting primarily of cash earnings. UFPT's prepaid expenses are typically high in the first quarter due to the payment of upfront insurance premiums. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $1 million to $35.1 million at the end of 2015.

2016 Forecast

For 2016, we project revenue growth of 4% to $146 million ($147.7 million previously), in line with the company's historic growth rate and projected growth rates of the company's end markets (6.1% medical, 2.3% automotive, 4% industrial, 1.4% consumer/electronics, and 0.5% defense for a weighted average growth rate of approximately 4%). We project net income of $12.6 million or $1.72 per share ($12.9 million or $1.76 per share previously). Our lower projections are primarily due to weaker sales than previously projected in most of the company's end markets (excludes medical – the company's largest and fastest growing end market). A full year of cost savings from the 2015 plant consolidations should widen gross margins to 30%.

SG&A expenses should increase to $24.7 million from $24.2 million in 2015 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.9%. Operating income is projected to increase to $19.1 million from $12.4 million with margins increasing to 13.1% from 8.9%. Taxes are estimated at 35%.

In 2016, we project $18.6 million cash from operations consisting primarily of cash earnings. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $12 million to $47.1 million at the end of 2016.

1Q15 Financial Results

Sales decreased 2% to $34 million. Net income decreased to $1.7 million or $0.23 per share from $2.1 million or $0.29 per share. We projected 1Q15 sales of $34.6 million and net income of $1.9 million or $0.26 per share.

The decrease in sales was primarily due to lower sales to the defense and consumer markets, offset in part by increased sales to the medical market, which grew by 13%. Sales declined by 15% in the aerospace and defense market and 14% in the consumer market. The decline in sales to the aerospace and defense market was primarily due to non-recurring contract manufacturing orders from a single defense customer in 1Q14. The decline in sales to the consumer market was primarily due to non-repeating fiber packaging orders from a single customer in 1Q14.

Gross margins decreased to 25.4% from 26.5% due primarily to increased start-up costs associated with the launch of a new molded fiber line in Texas and the related transfer of business from the company's plant in Iowa. SG&A expenses increased to $6 million from $5.9 and restructuring costs associated with the company's plant relocation was $78,000. Operating income decreased to $2.6 million from $3.2 million resulting in margins decreasing to 7.6% from 9.2%. The company showed an effective income tax rate of 35%.

Liquidity

The company has a strong balance sheet. Total debt is $2.6 million, tangible equity is $88.9 million, and cash (approximately $3.43 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.7 for the packaging and containers industry.

Cash earnings of $2.8 million and a $4.1 million increase in working capital resulted in $1.2 million cash used in operations in the first three months of 2015. The increase in working capital was primarily due to increases in accounts receivable and prepaid expenses and a decrease in accounts payable. Capital expenditures of $8.5 million, including additions of manufacturing machinery and equipment associated with plant consolidations and the purchase of a new manufacturing and headquarters building in Massachusetts, were the primary drain on cash resulting in a $9.7 million decrease in cash to $24.4 million as of March 31, 2015.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of March 31, 2015. 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, 2015.

UFPT has a $5 million 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was $2.6 million as of March 31, 2015. 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 24% of total revenues in 2014. 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 7.1 million shares outstanding and 5.7 million in the float, liquidity issues must be considered. Average daily volume has been approximately 20,000 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 $)

	2012A	2013A	2014A	3/15A	2015E	2016E
Cash and cash equivalents	33,479	37,303	34,052	24,392	35,077	47,056
Receivables	17,836	17,032	16,470	18,223	16,555	17,261
Inventories	9,695	11,048	12,893	12,925	12,885	12,864
Prepaid expenses	654	690	664	2,060	675	675
Refundable income taxes	1,714	1,537	3,192	2,579	2,579	2,579
Deferred income taxes	1,116	1,222	1,142	1,150	1,150	1,150
Total current assets	64,494	68,832	68,413	61,329	68,921	81,586
Net property, plant and equipment	23,318	25,507	34,843	42,291	43,502	44,474
Goodwill	7,039	7,322	7,322	7,322	7,322	7,322
Intangible assets	2,084	1,346	953	874	635	317
Other assets	1,682	2,013	2,159	2,210	2,210	2,210
Total assets	**98,617**	**105,020**	**113,690**	**114,026**	**122,590**	**135,909**
Current portion of long-term debt	1,550	976	993	998	998	998
Accounts payable	4,088	3,081	5,398	4,336	5,395	5,386
Accrued expenses	7,593	8,265	5,222	4,502	5,249	5,473
Total current liabilities	13,231	12,322	11,613	9,836	11,642	11,857
Long-term debt	8,314	2,867	1,873	1,621	873	-
Deferred income taxes	1,589	2,436	3,588	3,692	3,692	3,692
Other liabilities	2,222	1,805	1,624	1,790	1,790	1,790
Total liabilities	**25,356**	**19,430**	**18,698**	**16,939**	**17,997**	**17,339**
Total stockholders' equity	**73,261**	**85,590**	**94,992**	**97,087**	**104,593**	**118,570**
Total liabilities & stockholders' equity	**98,617**	**105,020**	**113,690**	**114,026**	**122,590**	**135,909**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2012A	2013A	2014A	2015E	2016E
Net sales	130,962	139,223	139,307	140,027	146,000
Cost of sales	92,777	98,574	102,427	102,364	102,200
Gross profit	38,185	40,649	36,880	37,663	43,800
Extraordinary items	(12)	11	1,472	1,047	-
SG&A	21,531	23,240	23,847	24,174	24,700
Operating income	16,666	17,398	11,561	12,442	19,100
Non-operating (expenses) income	(92)	(205)	204	126	200
Income before taxes	16,574	17,193	11,765	12,568	19,300
Income tax	5,679	5,917	4,206	4,399	6,755
Net Income / (Loss)	10,895	11,276	7,559	8,169	12,545
EPS	1.55	1.59	1.05	1.13	1.72
Shares Outstanding	7,028	7,105	7,175	7,236	7,300
Margin Analysis					
Gross margin	29.2%	29.2%	26.5%	26.9%	30.0%
SG&A	16.4%	16.7%	17.1%	17.3%	16.9%
Operating margin	12.7%	12.5%	8.3%	8.9%	13.1%
Pretax margin	12.7%	12.3%	8.4%	9.0%	13.2%
Tax rate	34.3%	34.4%	35.8%	35.0%	35.0%
Year / Year Growth					
Total Revenues	2.9%	6.3%	0.1%	0.5%	4.3%
Net Income	5.3%	3.5%	(33.0)%	8.1%	53.6%
EPS	4.9%	2.4%	(33.6)%	7.2%	52.2%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2014A - 2016E
(in thousands $)

	3/14A	6/14A	9/14A	12/14A	2014A	3/15A	6/15E	9/15E	12/15E	2015E	3/16E	6/16E	9/16E	12/16E	2016E
Net sales	34,609	34,025	35,406	35,267	139,307	33,977	34,050	35,400	36,600	140,027	36,300	36,400	36,550	36,750	146,000
Cost of sales	25,580	24,549	25,723	26,575	102,427	25,339	25,197	25,842	25,986	102,364	25,410	25,480	25,585	25,725	102,200
Gross profit	9,029	9,476	9,683	8,692	36,880	8,638	8,853	9,558	10,614	37,663	10,890	10,920	10,965	11,025	43,800
Extraordinary items	-	222	714	536	1,472	47	450	450	100	1,047	-	-	-	-	-
SG&A	5,834	6,466	5,871	5,676	23,847	6,024	6,025	6,050	6,075	24,174	6,100	6,150	6,200	6,250	24,700
Operating income	3,195	2,788	3,098	2,480	11,561	2,567	2,378	3,058	4,439	12,442	4,790	4,770	4,765	4,775	19,100
Non-operating (expenses) income	(22)	73	81	72	204	(24)	50	50	50	126	50	50	50	50	200
Income before taxes	3,173	2,861	3,179	2,552	11,765	2,543	2,428	3,108	4,489	12,568	4,840	4,820	4,815	4,825	19,300
Income tax	1,111	1,001	1,113	981	4,206	890	850	1,088	1,571	4,399	1,694	1,687	1,685	1,689	6,755
Net Income / (Loss)	2,062	1,860	2,066	1,571	7,559	1,653	1,578	2,020	2,918	8,169	3,146	3,133	3,130	3,136	12,545
EPS	0.29	0.26	0.29	0.22	1.05	0.23	0.22	0.28	0.40	1.13	0.43	0.43	0.43	0.43	1.72
Shares Outstanding	7,148	7,168	7,186	7,192	7,175	7,193	7,225	7,250	7,275	7,236	7,300	7,300	7,300	7,300	7,300
Margin Analysis															
Gross margin	26.1%	27.9%	27.3%	24.6%	26.5%	26.0%	26.0%	27.0%	29.0%	26.9%	30.0%	30.0%	30.0%	30.0%	30.0%
SG&A	16.9%	19.0%	16.6%	16.1%	17.1%	17.7%	17.7%	17.1%	16.6%	17.3%	16.8%	16.9%	17.0%	17.0%	16.9%
Operating margin	9.2%	8.2%	8.7%	7.0%	8.3%	7.6%	7.0%	8.6%	12.1%	8.9%	13.2%	13.1%	13.0%	13.0%	13.1%
Pretax margin	9.2%	8.4%	9.0%	7.2%	8.4%	7.5%	7.1%	8.8%	12.3%	9.0%	13.3%	13.2%	13.2%	13.1%	13.2%
Tax rate	35.0%	35.0%	35.0%	38.4%	35.8%	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	2.7%	-5.0%	2.0%	0.8%	0.1%	-1.8%	0.1%	0.0%	3.8%	0.5%	6.8%	6.9%	3.2%	0.4%	4.3%
Net Income	1.6%	(37.6)%	(28.4)%	(53.5)%	(33.0)%	(19.8)%	(15.2)%	(2.2)%	85.7%	8.1%	90.3%	98.5%	54.9%	7.5%	53.6%
EPS	0.7%	(38.3)%	(29.2)%	(53.9)%	(33.6)%	(20.3)%	(15.8)%	(3.1)%	83.6%	7.2%	87.5%	96.5%	53.9%	7.1%	52.2%

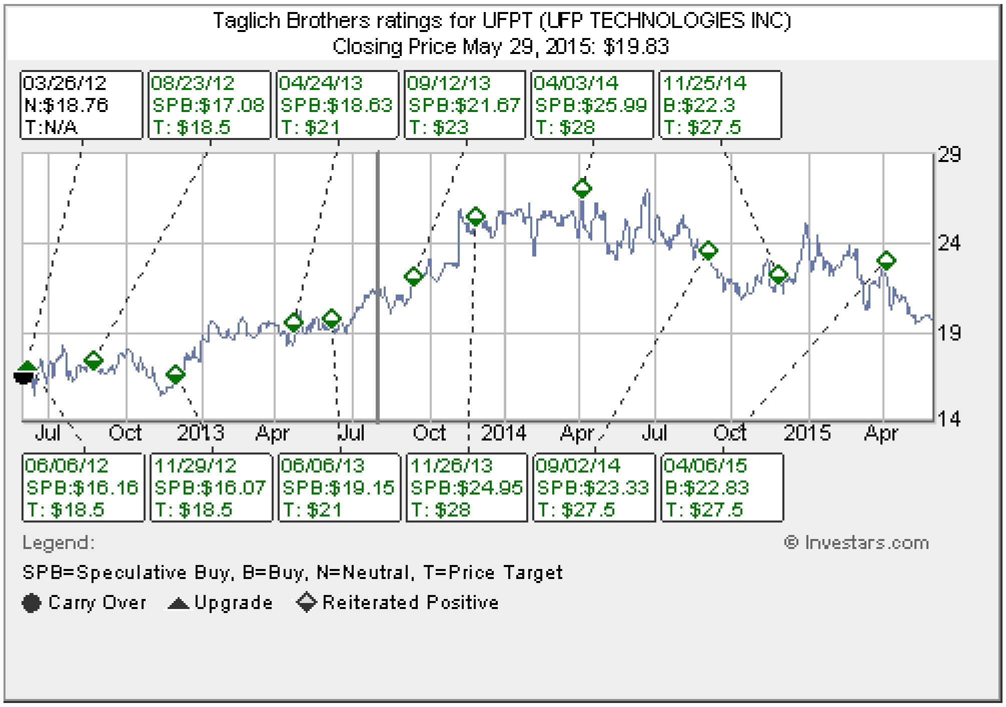
Source: Company filings and Taglich Brothers' estimates

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

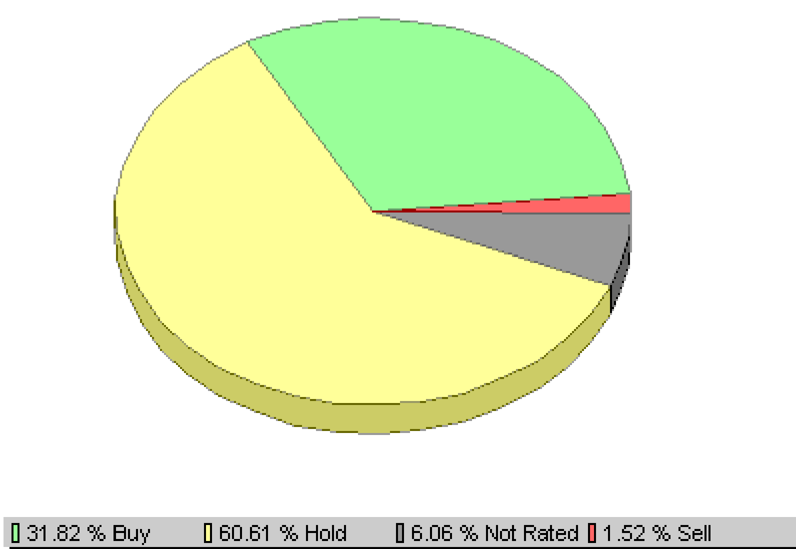
	2012A	2013A	2014A	3mos15A	2015E	2016E
Net income	10,895	11,276	7,559	1,653	8,169	12,545
Depreciation & amortization	2,928	4,084	4,376	1,153	5,232	5,346
(Gain) loss on disposal of property, plant and equipment	(12)	11	5	(31)	-	-
Share-based compensation	860	924	1,119	210	1,200	1,200
Excess tax benefit on share-based compensation	(832)	(818)	(1,219)	(183)	(732)	(732)
Deferred income taxes	610	740	1,232	96	96	96
Cash earnings	14,449	16,217	13,072	2,898	13,965	18,455
Changes in assets and liabilities						
Receivables	(842)	804	562	(1,753)	(85)	(706)
Inventories	801	(1,353)	(1,845)	(32)	8	21
Prepaid expenses	(65)	(36)	26	(1,396)	(11)	-
Refundable income taxes	(695)	994	(436)	796	546	636
Accounts payable	384	(1,007)	2,317	(1,062)	(3)	(9)
Accrued expenses and other	2,143	1,272	(2,243)	(720)	27	224
Retirement and other liabilities	190	(417)	(181)	166	166	-
Other assets	(203)	(368)	(146)	(51)	(51)	-
(Increase) decrease in working capital	1,713	(111)	(1,946)	(4,052)	596	166
Net Cash Provided by Operations	**16,162**	**16,106**	**11,126**	**(1,154)**	**14,562**	**18,621**
Additions to property, plant and equipment	(11,994)	(5,830)	(13,436)	(8,522)	(12,800)	(6,000)
Redemption of cash value life insurance	-	37	-	-	-	-
Proceeds from sale of property, plant and equipment	86	1	112	31	31	-
Acquisitions	(3,596)	(600)	-	-	-	-
Net Cash Used in Investing	**(15,504)**	**(6,392)**	**(13,324)**	**(8,491)**	**(12,769)**	**(6,000)**
Proceeds from long-term borrowings	4,384	580	-	-	-	-
Distribution to United Development Company partners	(1,196)	-	-	-	-	-
Tax benefit from exercise of non-qualified stock options	832	818	1,219	183	732	732
Proceeds from exercise of stock options	365	191	336	128	350	350
Payment of statutory withholdings for stock options exercised	(672)	(879)	(831)	(79)	(850)	(850)
Principal repayments of long-term debt	(740)	(6,601)	(977)	(247)	(1,000)	(873)
Payment of contingent note payable	-	-	(800)	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**2,973**	**(5,891)**	**(1,053)**	**(15)**	**(768)**	**(641)**
Net Change in Cash	**3,631**	**3,823**	**(3,251)**	**(9,660)**	**1,025**	**11,980**
Cash - Beginning of Period	**29,849**	**33,480**	**37,303**	**34,052**	**34,052**	**35,077**
Cash - End of Period	**33,480**	**37,303**	**34,052**	**24,392**	**35,077**	**47,056**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



<u>Investment Banking Services for Companies Covered in the Past 12 Months</u>

Rating	#	%
Buy	2	8
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.