Research Report – Update

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

UFP Technologies, Inc.

Rating: Buy

John Nobile
May 16, 2017

UFPT $26.85 — (NASDAQ CM)

	2015A	2016A	2017E	2018E
Revenues (millions)	$138.9	$146.1	$156.0	$165.0
Earnings per share (diluted)	$1.05	$1.10	$1.39	$1.75

52-Week range	$28.45 – $20.40	Fiscal year ends:	December
Shares outstanding as of 5/1/17	7.2 million	Revenue per share (TTM)	$20.38
Approximate float	5.9 million	Price/Sales (TTM)	1.3X
Market capitalization	$193 million	Price/Sales (2018)E	1.2X
Tangible book value/share	$14.85	Price/Earnings (TTM)	21.7X
Price/tangible book	1.8X	Price/Earnings (2018)E	15.3X

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:

Maintaining Buy rating on UFP Technologies. Raising twelve-month price target to $30.00 from $27.50 due primarily to strong earnings growth through 2018.

Growth in medical market sales and potential defense/aerospace market sales growth stemming from increased defense spending, should help drive growth in UFPT's sales through our forecast horizon.

The high costs and manufacturing inefficiencies associated with plant consolidations that impacted gross margins in 2016, appear to have abated in 1Q17. The $1 million in annual cost savings from these consolidations along with strategic price increases, should drive gross margins from 23.7% in 2016, to 25.9% in 2017 and 27% in 2018.

1Q17 revenue (released on 5/9/17) increased 7% to $37.1 million. EPS doubled to $0.30 from $0.15. We projected 1Q17 sales of $36.2 million and EPS of $0.23.

For 2017, we project revenue growth of 7% to $156 million and EPS of $1.39 (prior forecast was $153.4 million in revenue and EPS of $1.17) reflecting continued strong growth in medical sales (up 12% in 1Q17) and higher gross margins than previously anticipated.

For 2018, we project revenue growth of 6% to $165 million and EPS of $1.75. We previously forecasted $164 million in revenue and EPS of $1.72. The increase in our forecast reflects strong demand from the medical market and increased defense/aerospace sales. Partly restraining our projections is lower automotive segment sales stemming from the end of a 13-year automotive door panel program in 4Q17.

Please view our disclosures on pages 11 - 13.

Recommendation and Valuation

Maintaining our Buy rating on UFP Technologies and increasing our twelve-month price target to $30.00 from $27.50 due primarily to strong earnings growth through 2018.

Shares of UFP Technologies trade at a forward discount to its direct competitors (see chart below) due arguably to margin compression over the past year as the company was going through a consolidation period.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2018 P/E	Average Projected EPS Growth to 2018
Packaging Corp of America	PKG	102.88	9,692	20.4	15.7	18%
Sealed Air	SEE	42.99	8,418	16.5	17.3	6%
Graphic Packaging	GPK	14.04	4,360	21.0	15.8	13%
Bemis	BMS	44.27	4,071	16.6	15.6	7%
Greif	GEF	57.18	1,476	23.1	17.5	50%
Peer Average				**19.5**	**16.4**	**19%**
Company						
UFP Technologies	**UFPT**	**26.85**	**193**	**21.7**	**15.3**	**26%**
Source: Taglich Brothers estimates, Thomson Reuters						

UFP Technologies currently trades at a multiple of 15X our 2018 EPS projection while its direct competitors trade at a 2018 multiple of 16X. We believe UFPT's lower valuation compared to its direct competitors is primarily due to the 2016 pressure on gross margins. We expect investors will accord UFPT a higher multiple compared to its direct competitors as margin expansion results in higher projected annual earnings growth to 2018 for the company versus the average of its direct competitors. We applied a multiple of 17X to our 2018 EPS projection of $1.75 to obtain a year-ahead value of approximately $30.00 per share.

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.

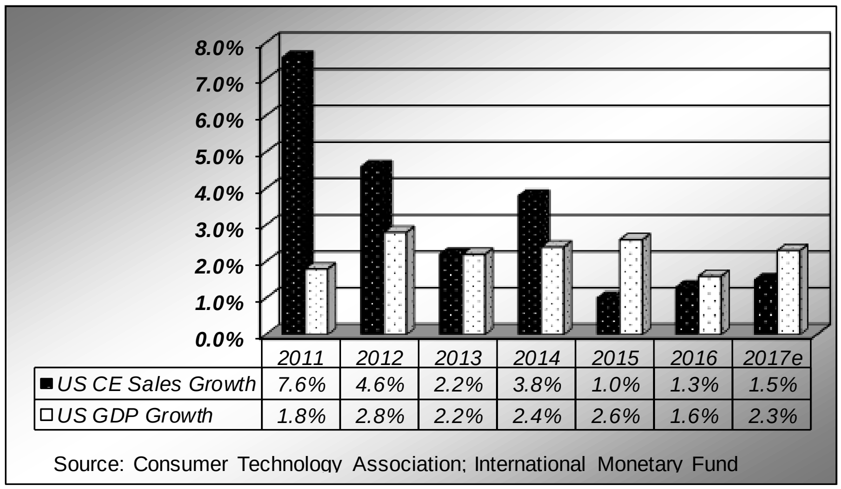
Industry Outlook

In March 2017, 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. In April 2017, IBISWorld forecasted medical device industry average annual sales growth of approximately 2.8% to $49 billion during the six years to 2022.

In March 2017, IBISWorld projected the US car and automobile industry to show average annual sales growth of 1.2% to $124.8 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.

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 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. President Trump's 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

Since most of the company's revenue is tied to economically sensitive end markets in the US, stable GDP growth should support our revenue forecast to 2018.

In April 2017, the IMF kept its economic growth estimate for the US unchanged at 2.3% in 2017 and 2.5% in 2018. The IMF's projection reflects momentum from 2H16 that was driven by a cyclical recovery in inventory accumulation, solid consumption growth, and the assumption of a looser fiscal policy stance.

The advance estimate of US GDP growth (released on April 28, 2017) showed the US economy grew at an annual rate of 0.7% in 1Q17, down from 2.1% growth in 4Q16. In May 2017, the Federal Reserve Bank of Atlanta anticipates US GDP to rebound in 2Q17 to 3.6%.

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.

Company	Sales TTM	Gross Margin
Graphic Packaging	$4.3B (3/17)	18.3%
Packaging Corp. of America	$5.9B (3/17)	21.7%
Greif	$3.4B (1/17)	20.3%
Bemis Company	$4.0B (3/17)	21.5%
Sealed Air Corp.	$6.8B (3/17)	37.2%
UFP Technologies	$148.7M (3/17)	23.3%

Source: Yahoo! Finance

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.

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

Projections

In 2015, the company ceased operations at its Raritan, New Jersey plant and consolidated operations 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 1Q17. Approximately $2.1 million in one-time expenses have occurred in connection with these consolidations. Annual cost savings of $1 million should occur from these consolidations due to reduced real estate and labor costs.

2017 Forecast

For 2017, we project revenue growth of 7% to $156 million and net income of $10.2 million or $1.39 per share. Our projections increased from our prior forecast of $153.4 million in revenue and earnings of $8.5 million or $1.17 per share. The increase in our forecast reflects continued strong growth in medical sales (up 12% in 1Q17) and higher gross margins than previously projected. Our gross margin projections are supported by the strategic price increases afforded by a five-year deal with Zotefoams granting UFPT exclusive access to certain medical grade foams.

SG&A expenses should increase to $25 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%. We project operating income of $15.4 million, up from $12.2 million with margins increasing to 9.9% from 8.4%. Taxes are estimated at rate of 34.6%.

In 2017, we project $15.9 million cash from operations from cash earnings of $16.9 million and a $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 $10.1 million to $41.4 million at the end of 2017.

2018 Forecast

For 2018, we project revenue growth of 6% to $165 million and net income of $12.8 million or $1.75 per share. We previously projected revenue of $164 million and earnings of $12.6 million or $1.72 per share. The increase reflects strong demand from the medical market and increased defense/aerospace segment sales fueled by increased defense spending. Partly offsetting the increase in our projections is lower automotive segment sales stemming from the end of a 13-year automotive door panel program in 4Q17 (estimated to contribute $2.3 million sales in 2017).

With consolidation at and end, we project gross margins increasing to 27% from 25.9% in 2017. SG&A expenses should increase to $25.1 million from $25 million in 2017 due primarily to increased compensation costs. SG&A margins should decrease to 15.2% from our 2017 forecast of 16%. Operating income is projected to increase to $19.5 million from $15.4 million with margins increasing to 11.8% from 9.9%. Taxes are estimated at a rate of 35%.

In 2018, we project $17.8 million cash from operations from cash earnings of $19.2 million and a $1.3 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 $12.3 million to $53.7 million at the end of 2018.

1Q17 Financial Results

Sales increased 7% to $37.1 million with net income of $2.2 million or $0.30 per share, up from $1.1 million or $0.15 per share. We projected sales of $36.2 million and net income of $1.7 million or $0.23 per share.

Revenue growth was driven by demand from customers in the medical, automotive, and aerospace and defense markets, partially offset by decreased sales to the industrial and electronics markets. The decrease in sales to the industrial and electronics markets was primarily due to decreased demand for protective packaging.

Gross margins increased to 25.7% from 22.4% due primarily to improvements in manufacturing efficiencies associated with recent plant consolidations, price increases, and an improvement in the company's business mix. SG&A expenses increased to $6.3 million from $5.9 million primarily due to increased compensation. Operating income increased to $3.2 million from $1.7 million in 1Q16 on operating margins of 8.6% and 4.9%, respectively. The company showed an effective income tax rate of 32.8%.

Liquidity

The company has a strong balance sheet. Total debt is $600,000, tangible equity is $107.8 million, and cash (approximately $4.65 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 2.0 for the packaging and containers industry.

Cash from operations of $4.1 million consisted primarily of cash earnings. Cash provided by operations covered $1.5 million of capital expenditures and a $256,000 repayment of debt resulting in a $2.4 million increase in cash to $33.8 million as of March 31, 2017.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of March 31, 2017. 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, 2017.

UFPT has a $5 million 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was $600,000 as of March 31, 2017. 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 29,000 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	3/17A	2017E	2018E
Cash and cash equivalents	34,052	29,804	31,359	33,755	41,446	53,733
Receivables	16,470	17,481	21,249	21,923	22,684	23,993
Inventories	12,893	14,202	14,151	14,411	14,669	15,289
Prepaid expenses	664	930	2,281	2,869	2,869	2,869
Refundable income taxes	3,192	1,186	807	-	-	-
Deferred income taxes	-	-	-	-	-	-
Total current assets	67,271	63,603	69,847	72,958	81,668	95,884
Net property, plant and equipment	34,843	46,555	48,516	49,056	49,127	49,674
Goodwill	7,322	7,322	7,322	7,322	7,322	7,322
Intangible assets	953	636	318	238	-	-
Other assets	2,159	1,834	1,931	1,945	1,945	1,945
Total assets	**112,548**	**119,950**	**127,934**	**131,519**	**140,062**	**154,825**
Current portion of long-term debt	993	1,011	856	600	600	600
Accounts payable	5,398	4,598	4,002	5,907	4,148	4,324
Accrued expenses	5,222	5,374	4,698	4,084	5,015	5,305
Total current liabilities	11,613	10,983	9,556	10,591	9,764	10,229
Long-term debt	1,873	859	-	-	-	-
Deferred income taxes	2,446	2,883	3,459	3,537	3,537	3,537
Other liabilities	1,624	1,653	1,866	1,986	1,986	1,986
Total liabilities	**17,556**	**16,378**	**14,881**	**16,114**	**15,287**	**15,752**
Total stockholders' equity	**94,992**	**103,572**	**113,053**	**115,405**	**124,775**	**139,073**
Total liabilities & stockholders' equity	**112,548**	**119,950**	**127,934**	**131,519**	**140,062**	**154,825**

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	156,003	165,000
Cost of sales	102,427	101,397	111,482	115,560	120,450
Gross profit	36,880	37,453	34,650	40,443	44,550
Extraordinary items	1,472	1,731	(1,692)	(5)	-
SG&A	23,847	24,009	24,105	25,016	25,050
Operating income	11,561	11,713	12,237	15,432	19,500
Non-operating (expenses) income	204	27	80	118	120
Income before taxes	11,765	11,740	12,317	15,550	19,620
Income tax	4,206	4,147	4,347	5,373	6,867
Net Income / (Loss)	7,559	7,593	7,970	10,177	12,753
EPS	1.05	1.05	1.10	1.39	1.75
Shares Outstanding	7,175	7,219	7,275	7,299	7,300
Margin Analysis					
Gross margin	26.5%	27.0%	23.7%	25.9%	27.0%
SG&A	17.1%	17.3%	16.5%	16.0%	15.2%
Operating margin	8.3%	8.4%	8.4%	9.9%	11.8%
Pretax margin	8.4%	8.5%	8.4%	10.0%	11.9%
Tax rate	35.8%	35.3%	35.3%	34.6%	35.0%
Year / Year Growth					
Total Revenues	0.1%	(0.3)%	5.2%	6.8%	5.8%
Net Income	(33.0)%	0.4%	5.0%	27.7%	25.3%
EPS	(33.6)%	(0.2)%	4.2%	27.3%	25.3%

Source: Company filings and Taglich Brothers' estimates

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

	3/16A	6/16A	9/16A	12/16A	2016A	3/17A	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	37,053	40,000	39,950	39,000	156,003	38,950	42,700	42,100	41,250	165,000
Cost of sales	26,776	27,607	28,768	28,321	111,482	27,537	29,600	29,563	28,860	115,560	28,434	31,171	30,733	30,113	120,450
Gross profit	7,727	10,295	8,452	8,184	34,650	9,516	10,400	10,387	10,140	40,443	10,517	11,529	11,367	11,138	44,550
Extraordinary items	119	(368)	(1,656)	222	(1,692)	(5)	-	-	-	(5)	-	-	-	-	-
SG&A	5,904	6,470	6,027	5,704	24,105	6,316	6,350	6,250	6,100	25,016	5,900	6,500	6,400	6,250	25,050
Operating income	1,704	4,193	4,081	2,258	12,237	3,205	4,050	4,137	4,040	15,432	4,617	5,029	4,967	4,888	19,500
Non-operating (expenses) income	11	15	25	29	80	28	30	30	30	118	30	30	30	30	120
Income before taxes	1,715	4,208	4,106	2,287	12,317	3,233	4,080	4,167	4,070	15,550	4,647	5,059	4,997	4,918	19,620
Income tax	640	1,473	1,437	796	4,347	1,062	1,428	1,458	1,425	5,373	1,626	1,771	1,749	1,721	6,867
Net Income / (Loss)	1,075	2,735	2,669	1,491	7,970	2,171	2,652	2,709	2,646	10,177	3,020	3,288	3,248	3,196	12,753
EPS	0.15	0.38	0.37	0.20	1.10	0.30	0.36	0.37	0.36	1.39	0.41	0.45	0.44	0.44	1.75
Shares Outstanding	7,255	7,271	7,312	7,300	7,275	7,297	7,300	7,300	7,300	7,299	7,300	7,300	7,300	7,300	7,300
Margin Analysis															
Gross margin	22.4%	27.2%	22.7%	22.4%	23.7%	25.7%	26.0%	26.0%	26.0%	25.9%	27.0%	27.0%	27.0%	27.0%	27.0%
SG&A	17.1%	17.1%	16.2%	15.6%	16.5%	17.0%	15.9%	15.6%	15.6%	16.0%	15.1%	15.2%	15.2%	15.2%	15.2%
Operating margin	4.9%	11.1%	11.0%	6.2%	8.4%	8.6%	10.1%	10.4%	10.4%	9.9%	11.9%	11.8%	11.8%	11.8%	11.8%
Pretax margin	5.0%	11.1%	11.0%	6.3%	8.4%	8.7%	10.2%	10.4%	10.4%	10.0%	11.9%	11.8%	11.9%	11.9%	11.9%
Tax rate	37.3%	35.0%	35.0%	34.8%	35.3%	32.8%	35.0%	35.0%	35.0%	34.6%	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%	7.4%	5.5%	7.3%	6.8%	6.8%	5.1%	6.7%	5.4%	5.8%	5.8%
Net Income	(35.0)%	20.4%	34.0%	(11.0)%	5.0%	102.0%	(3.0)%	1.5%	77.4%	27.7%	39.1%	24.0%	19.9%	20.8%	25.3%
EPS	(35.5)%	19.4%	32.5%	(11.7)%	4.2%	100.8%	(3.4)%	1.6%	77.4%	27.3%	39.1%	24.0%	19.9%	20.8%	25.3%

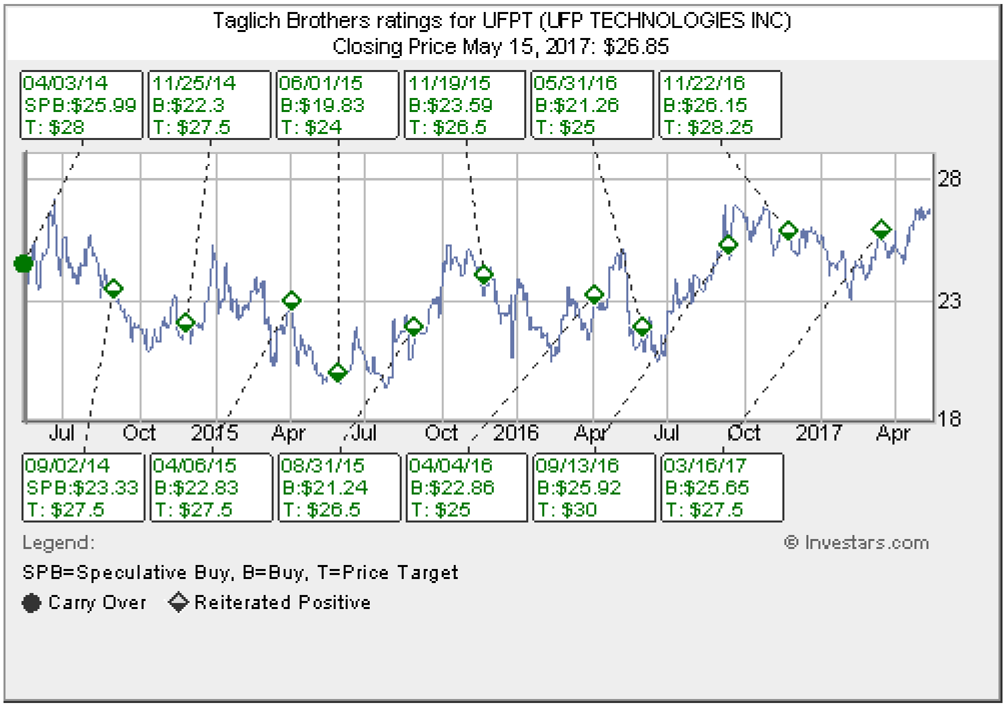
Source: Company filings and Taglich Brothers' estimates

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

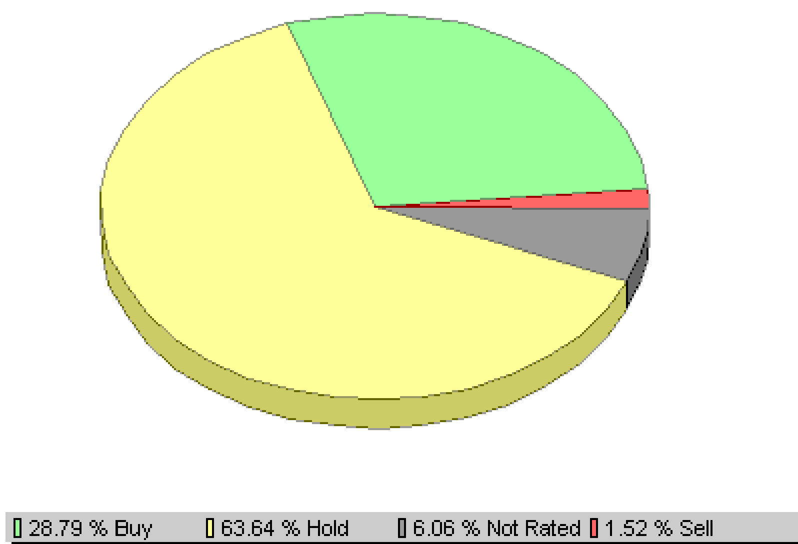
	2014A	2015A	2016A	3M17A	2017E	2018E
Net income	7,559	7,593	7,970	2,171	10,177	12,753
Depreciation & amortization	4,376	4,846	5,634	1,395	5,707	5,453
(Gain) loss on disposal of property, plant and equipment	5	27	2	(5)	(5)	-
Share-based compensation	1,119	1,069	1,056	209	1,100	1,100
Excess tax benefit on share-based compensation	(1,219)	(356)	(145)	-	(145)	(145)
Deferred income taxes	1,232	437	576	78	78	-
Cash earnings	13,072	13,616	15,093	3,848	16,912	19,161
Changes in assets and liabilities						
Receivables	562	(1,011)	(3,768)	(674)	(1,435)	(1,308)
Inventories	(1,845)	(1,309)	51	(260)	(518)	(621)
Prepaid expenses	26	(266)	(1,351)	(588)	(588)	-
Refundable income taxes	(436)	2,362	209	807	952	145
Accounts payable	2,317	(800)	(596)	1,513	146	176
Accrued expenses and other	(2,243)	152	(361)	(614)	317	289
Retirement and other liabilities	(181)	29	213	120	120	-
Other assets	(146)	325	(97)	(14)	(14)	-
(Increase) decrease in working capital	(1,946)	(518)	(5,700)	290	(1,019)	(1,319)
Net Cash Provided by Operations	**11,126**	**13,098**	**9,393**	**4,138**	**15,893**	**17,842**
Additions to property, plant and equipment	(13,436)	(16,321)	(7,293)	(1,463)	(6,000)	(6,000)
Redemption of cash value life insurance	-	-	-	-	-	-
Proceeds from sale of fixed assets	112	53	14	5	5	-
Net Cash Used in Investing	**(13,324)**	**(16,268)**	**(7,279)**	**(1,458)**	**(5,995)**	**(6,000)**
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	79	500	500
Payment of statutory withholdings for stock options exercised	(831)	(209)	(219)	(107)	(200)	(200)
Principal repayments of long-term debt	(977)	(996)	(1,014)	(256)	(256)	-
Payment of contingent note payable	(800)	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(1,053)**	**(1,078)**	**(559)**	**(284)**	**189**	**445**
Net Change in Cash	**(3,251)**	**(4,248)**	**1,555**	**2,396**	**10,087**	**12,287**
Cash - Beginning of Period	**37,303**	**34,052**	**29,804**	**31,359**	**31,359**	**41,446**
Cash - End of Period	**34,052**	**29,804**	**31,359**	**33,755**	**41,446**	**53,733**

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	13
Hold	2	50
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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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.