Research Report – Update

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

Orchids Paper Products Company

Rating: Speculative Buy

John Nobile
March 26, 2015

TIS $26.60 — (NYSE MKT)

	2013A	2014A	2015E	2016E
Revenues (millions)	$116.4	$142.7	$169.9	$170.2
Earnings per share	$1.67	$1.11	$1.59	$1.96

52-Week range	$32.75 – $22.76	Fiscal year ends:	December
Shares outstanding a/o 3/1/15	8.8 million	Revenue per share (TTM)	$16.71
Approximate float	7.0 million	Price/Sales (TTM)	1.6X
Market capitalization	$234 million	Price/Sales (FY2016)E	1.4X
Tangible book value/share	$8.65	Price/Earnings (TTM)	24.0X
Price/tangible book value	3.1X	Price/Earnings (FY2016)E	13.6X
Annual dividend	$1.40	Dividend Yield	5.3%

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer, or "at home," market. The company has focused its product design and manufacturing on the discount retail market, primarily the dollar store retailers. (www.orchidspaper.com)

Key investment considerations:

Reiterating Speculative Buy rating and maintaining 12-month price target of $32.00. Our target implies a total (including dividend) year-ahead return of 25%.

Large discount retailers such as Walmart (accounted for 9% of Orchids' sales in 2014) and Target are increasingly focusing on private-label goods such as Orchids'. IBISWorld expects moderate growth to continue over the next five years.

While we believe the long-term trend for Orchids' revenue is higher, we project sales to temporarily flatten in 2016 as Orchids' option to purchase 7,700 additional tons (over 19,800) from Fabrica in each of the first two years of the agreement expires in 2H16. We believe Orchids' will resume sales growth in 2017 as the upgrade to its Oklahoma converting operations allows it to overcome current capacity constraints and improve product quality for moderate growth of approximately 3,000 tons (or 5%) of converted product from its Oklahoma plant.

We project 2015 revenue of $169.9 million and EPS of $1.59 (previously $161.8 million revenue and EPS of $1.91). The change in our estimates stems primarily from increased converted product sales offset by lower margins than previously anticipated. We project 2016 revenue of $170.2 million as the option to purchase additional tonnage from Fabrica expires in 2H16. We project EPS of $1.96 as gross margins improve from a full year of production from a new, more efficient paper machine.

Orchids reported (10K released 3/9/15) 4Q14 revenue of $41.3 million and EPS of $0.28. We projected 4Q14 revenue of $39.5 million and EPS of $0.35. In the year earlier quarter, Orchids generated revenue of $30.8 million and EPS of $0.42.

Please view our disclosures on pages 14 - 16.

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Recommendation and Valuation

Reiterating **Speculative Buy** rating and maintaining our **12-month price target of $32.00.** Our target implies a total (including dividend) year-ahead return of 25%.

Orchids' shares are currently trading at a multiple of 24X TTM earnings. We believe the multiple will pull back from its current level as sales growth flattens in 2016. We believe that during the next twelve months, the market will accord the stock a multiple of 17X earnings. Applying a multiple of 17X to our 2016 EPS estimate of $1.96, discounted to a twelve-month value of $1.87, gives us a price target of approximately $32.00 per share.

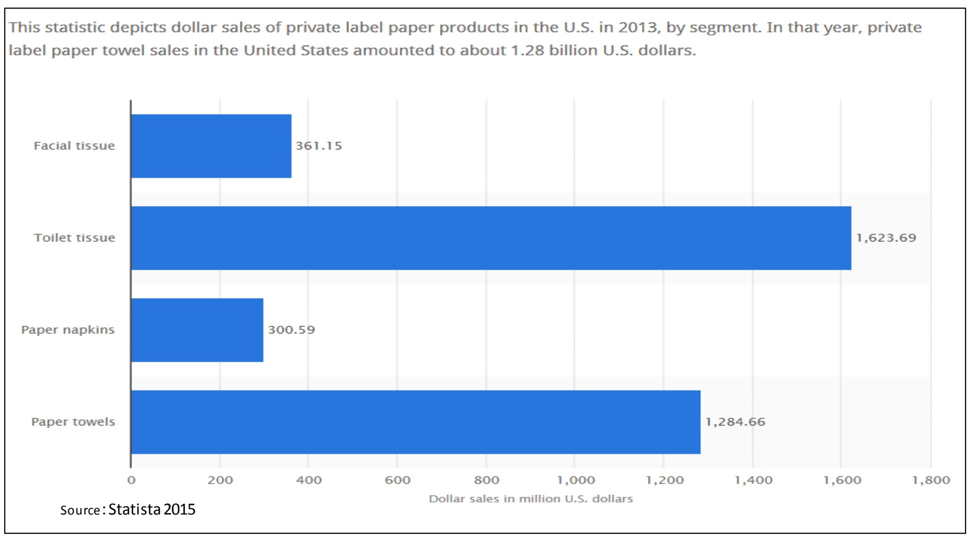
Business

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, converting it into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer or "at home" market. The company targets the discount retail market, primarily dollar store retailers, due to their consistent order patterns, limited number of stock keeping units (SKUs) and the growth in this channel of the retail market. Orchids has customers throughout the US, but its sales efforts are focused within a 500-mile radius of its northeast Oklahoma facility, a cost-effective shipping area.

The company's products are sold primarily under its customers' private labels and, to a lesser extent, under brand names such as Colortex® and Velvet®. Orchids does not have supply contracts with any of its customers. Orchids' products are daily consumable items so order streams are fairly constant with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products. However, local conditions might.

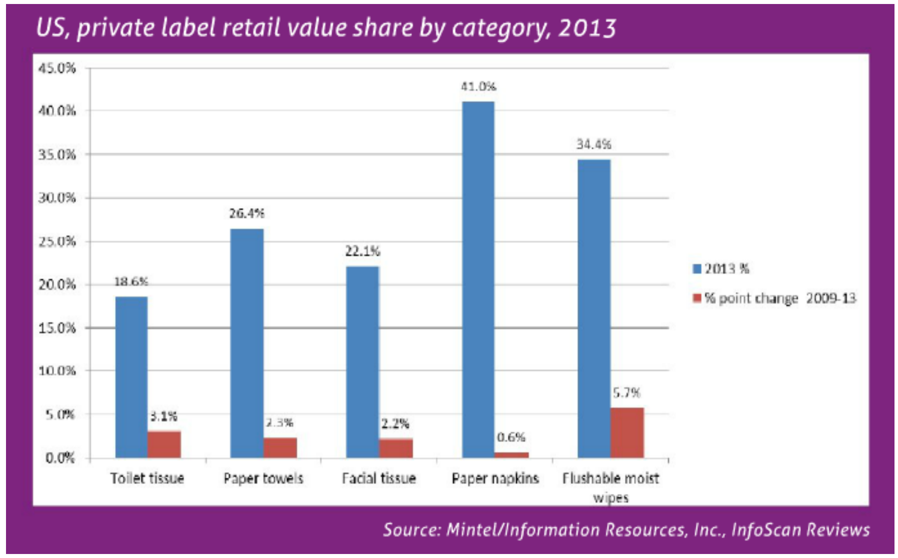
Private Label Paper Products Market and Outlook

In January 2015, the statistics website Statista.com reported that US sales of private label paper products were approximately $3.6 billion in 2013. Toilet tissue accounted for the greatest percentage of sales at 45%, followed by paper towels at 36%, facial tissue at 10%, and paper napkins at 8% (see chart at right).



In December 2014, international consulting and engineering company Pöyry said that private label tissue products grew at a rate of 8% from 2008 to 2013. Pöyry cited improved product quality and enhanced packaging design as some of the key factors driving the success of private label tissue products.

The September/October 2014 issue of Tissue World magazine reported that private label sales of products in the tissue category (toilet tissue, paper towels, facial tissue, paper napkins, and flushable moist wipes) increased their US market share from 2009 to 2013 (see chart at right). Tissue World said that many consumers who traded down to private label products during the last recession never moved back to name brands. The Private Label Manufacturers Association (PLMA) says that the growth in private label sales is driven by the rising quality and value of private label products.



In an October 2014 sanitary paper product manufacturing industry report, IBISWorld said that large discount retailers such as Walmart (accounted for 9% of Orchids' converted product sales in 2014) and Target were increasingly focusing on private-label goods that can provide higher margins. IBISWorld expects this trend to continue over the next five years. However, competition from lower-priced imports is expected to mitigate US growth resulting in moderate industry growth of 2% annually in the six years to 2020.

Economic Outlook

In January 2015, the International Monetary Fund's (IMF) economic growth estimate for the US was revised upward to 3.6% in 2015 and 3.3% in 2016, up from 3.1% in 2015 (October 2014) and 3% in 2016. The IMF said that US growth should be driven by domestic demand supported by low oil prices. Subsequent to the IMF's economic growth estimates was the release (on February 27, 2015) of the US GDP second estimate which showed the US economy grew at an annual rate of 2.2% in 4Q14. For all of 2014, the US economy grew at a rate of 2.4%, in line with the latest figures from the IMF.

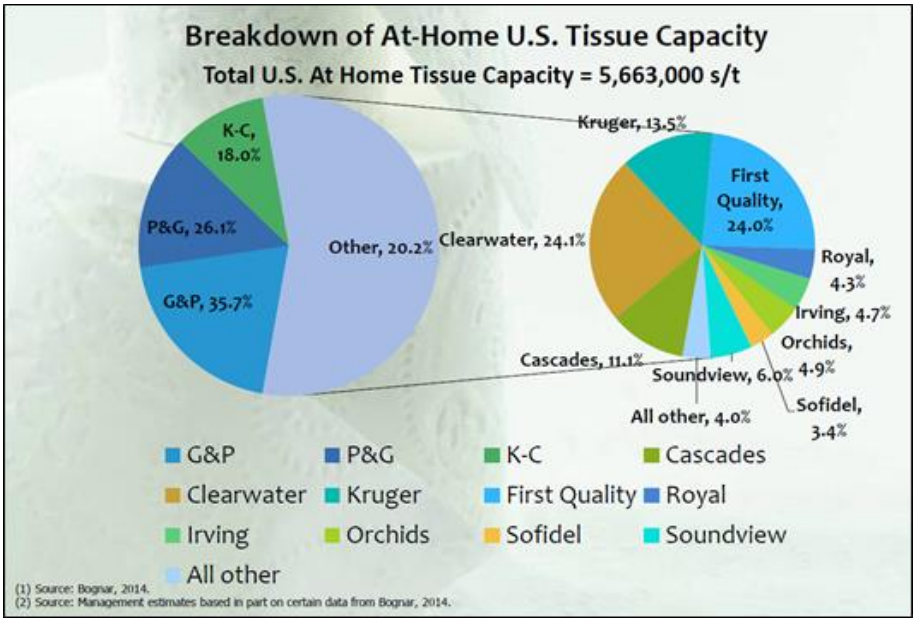
In February 2015, the Federal Reserve Bank of the Tenth Federal Reserve District, which includes the Oklahoma area, released its survey of manufacturing activity. The survey reported that the region's manufacturing activity rose just slightly from the previous month but producers expected activity to pick up moderately in the months ahead.

Although tissue products are considered consumer staples and changes in the economy do not typically affect sales of overall tissue products, the last recession did help in driving consumption to private label products such as Orchids'.

Market and Competition

In October 2014, IBISWorld estimated the 2014 US sanitary paper product market at $13 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $3.1 billion. The overall industry is projected to grow at an average annual growth rate of 2% over the next six years to $14.6 billion by 2020.

Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $61.8 billion in 2014. In October 2014, IBISWorld projected dollar and variety stores' average revenue growth to decline 2.9% annually over the next six years to $51.7 billion by 2020 as competition from rivals such as Walmart, Target and Costco increases.



Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of delivered product costs. Over the past five years, competitors (Clearwater Paper, Georgia-Pacific, Cascades, and Pacific Paper) have moved into Orchids' market areas, arguably drawn by attractive margins. The increased competition has reduced Orchids' competitive cost advantage and reduced gross margins from 29.2% in 2009 to 17.0% in 2010, and 16.3% in 2011. Orchids was able to reverse this downward trend as growing sales of higher margin converted products increased Orchids' gross margins to 22.4% in 2012, 24% in 2013. However, in 2014, gross margins fell to 18.7% due primarily to lower overhead coverage as the company shut down two of its older paper machines in September 2014 and started the construction and installation of a new paper machine. This reduced the absorption of fixed costs at Orchids' Oklahoma plant and required the company to purchase parent rolls in the open market.

Clearwater Paper and Cascades are the only publicly held direct competitors. Revenue and gross margins for Orchids and its competitors are shown at right. These competitors' lower gross margins versus Orchids' could drive them to expand in Orchids' market, increasing pressure on Orchids' prices and margins.

	Clearwater Paper	Cascades	Orchids Paper
2014 Revenue	$2.0B	$3.6B	$142.7M
2014 Gross Margin	13.1%	14.0%	18.7%
2013 Revenue	$1.9B	$3.4B	$116.4M
2013 Gross Margin	11.6%	15.0%	24.0%

Strategy

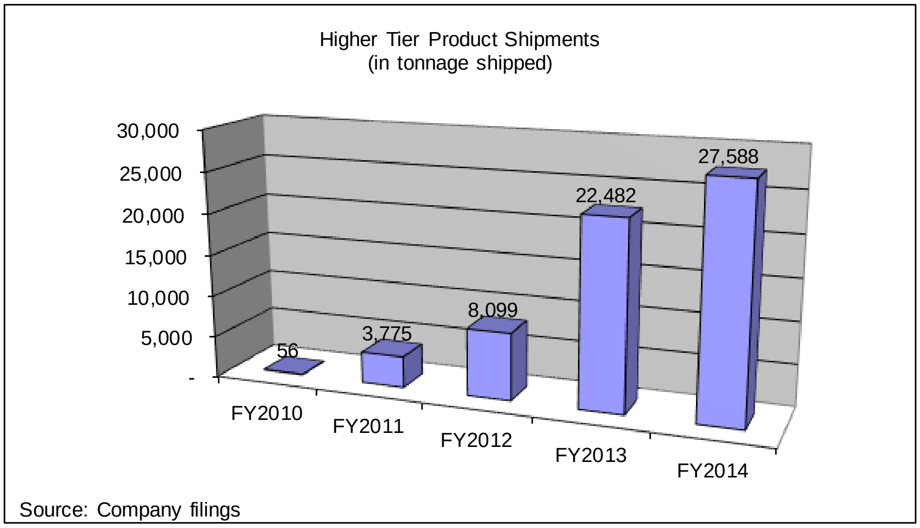
Orchids aims to increase sales of its converted products, which yield higher margins. However, we project sales to temporarily flatten in 2016 as Orchids' option to purchase 7,700 additional tons (over 19,800) from Fabrica in each of the first two years of the agreement expires in 2H16.

In 2014, Orchids acquired Fabrica's US business, including certain manufacturing assets, and access to 19,800 metric tons of capacity each year to support the value, premium and ultra-premium requirements of the US market.

The company plans to upgrade one of its converting lines to further improve manufacturing flexibility and capacity. Orchids also plans to replace two existing paper machines with a new machine that is expected to increase its Oklahoma plant's annual capacity from 57,000 tons to over 70,000 tons. In 2014, Orchids' shipped all of its current annual capacity from its Oklahoma plant of approximately 54,000 tons of converted product. The upgrade to its converting line is expected to provide additional annual capacity of approximately 16,000 tons, bringing Orchids' total converted capacity to approximately 70,000 tons, in line with its increased paper making capacity. The cost for these projects is approximately $38.9 million ($25 million for paper machine project and $13.9 million for converting line upgrade) over 2014 and 2015. The converting line project is expected to be completed and the paper machine is expected to be at full production in 2Q15.

Orchids plans to expand into retail channels such as grocery stores, mass merchandise and other discount retail sectors. Initial efforts to expand into these other channels previously had limited success due to capacity constraints and the inability to produce higher grade products. However, these shortcomings have been overcome by the additional converting line and new product initiatives (higher grade products).

The graph at right shows how shipments of Orchids' higher grade converted products have grown over the past five years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing).



4Q and FY2014 Financial Results

4Q14 - Sales of $41.3 million were up 34% compared to comparable period in 2013. Net income was $2.4 million or $0.28 per share versus net income of $3.4 million or $0.42 per share. We projected 4Q14 sales of $39.5 million and net income of $3.1 million or $0.35 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 43% to $41.3 million while parent roll (bulk tissue paper) sales were nil versus $1.8 million in the year earlier period due to the demolition of two paper machines in conjunction with a new paper machine project. The increase in converted product sales was due to a 53% increase in tonnage shipped to 20,864, partly offset by a 7% decrease in net selling prices to $1,981/ton.

Gross margins decreased to 15.6% from 23.5% primarily due to the company shutting down two of its older paper machines in September 2014 which reduced the absorption of fixed costs at Orchids' Oklahoma plant and required the company to purchase parent rolls in the open market. This had the adverse effect of increasing COGS by approximately $1.6 million or about 5%. Also contributing to the reduction in gross margins by approximately 3% was higher energy costs at the Mexicali facility that are typical in the second half.

Selling, general and administrative (SG&A) expenses remained flat at $2.5 million. The company recognized $323,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income decreased to $3.6 million or 8.7% of sales from $4.7 million or 15.1% of sales.

FY2014 - Sales increased 23% to $142.7 million. Net income was $9.5 million or $1.11 per share versus net income of $13.3 million or $1.67 per share.

Converted product sales increased 26% to $138.4 million while parent roll sales decreased 36% to $4.3 million. The increase in converted product sales was due to a 29% increase in tonnage shipped to 67,870, partly offset by a 2% decrease in selling prices to $2,039/ton due to the inclusion of US sales from Fabrica with its lower selling prices. Fabrica's selling prices are lower as it contains a greater mix of away-from-home (commercial) sales which typically have lower selling prices. The decrease in parent roll sales was due to a 27% decrease in tonnage shipped to 4,922 due to the demolition of two paper machines in conjunction with a new paper machine project and a 12% decrease in selling prices to $882/ton due to a continued soft market for parent rolls.

Gross margins decreased to 18.7% from 24% primarily due to the company shutting down two of its older paper machines in September 2014 which reduced the absorption of fixed costs at Orchids' Oklahoma plant and required the company to purchase parent rolls in the open market. This had the adverse effect of increasing COGS by approximately $2.1 million. Gross margins were also adversely affected by higher raw material (fiber) costs of approximately $1.1 million, a $1.3 million increase in depreciation expense, a 12% decrease in parent roll selling prices per ton which lowered gross profit by $610,000, and $400,000 of demolition costs.

Selling, general and administrative (SG&A) expenses increased to $11.7 million from $9.5 million primarily due to costs related to the Fabrica transaction. The company recognized $753,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income decreased to $14.3 million or 10% of sales from $18.4 million or 15.8% of sales.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2015. As of December 31, 2014, Orchids has cash of $1 million, a current ratio of 1.3X versus 1X for the paper products industry, and a debt/equity ratio of 0.3X, in line with the industry. Orchids' total debt in 2014 has more than doubled to over $36 million from approximately $15 million in 2013. The increase in debt was to fund the Fabrica transaction and capital expenditures (details provided below).

Cash from operations of $20.2 million in 2014 was primarily due to cash earnings of $18.6 million and a $1.5 million decrease in working capital. The decrease in working capital was primarily due to an increase in accounts payable partially offset by an increase in accounts receivable and other current assets. Capital expenditures of $25.8 million, $16.7 million for the acquisition of Fabrica, and $5 million proceeds from the sale of investment securities resulted in $37.4 million cash used in investing activities. These items combined with $21.3 million net borrowings and $11.8 million in dividend payments resulted in a $6.2 million decrease in cash to $1 million as of December 31, 2014.

In June 2014, Orchids entered into a $75 million credit agreement with U.S. Bank National Association. The agreement includes a $45 million revolving credit line due June 2019 and a $30 million term loan due June 2020. The agreement effectively extended and increased Orchids' revolving working capital line of credit from $15 million to $25 million, increased Orchids' revolving line of credit to include $20 million for the purchase and construction of assets in Oklahoma, and refinanced Orchids' $10.8 million real estate loan and $7.2 million machinery and equipment loan into a single $30 million term loan, which also provided funding for the $16.7 million paid in accordance with the Fabrica agreement. Borrowings under the agreement will bear interest at variable rates with margins ranging from 1% to 2% above LIBOR.

The credit agreement contains covenants that require Orchids to maintain specific fixed charge coverage and leverage ratios. As of December 31, 2014, the company was in compliance with those covenants.

In September 2014, Orchids entered into an agreement with the Oklahoma Development Finance Authority (ODFA) whereby the ODFA agreed to provide the company up to $3.5 million to fund a portion of the cost of a new paper production line. The agreement provides for Orchids' Oklahoma state withholding payroll taxes to be placed into a revolving fund held by ODFA. Each year on September 1, beginning in 2015 and ending in 2020, the ODFA will return these state withholding taxes in the revolving fund to the company, up to an amount totaling $3.5 million. These amounts are recognized as a note receivable in other current assets in the balance sheet and in other income in the income statement. The company recognized income of $213,000 in 2014 related to this agreement.

Projections

Fabrica contributed approximately 13,750 tons of converted product in 2014 with approximately one-half years' worth of contribution. With a full year of shipments from Fabrica and Orchids' current year-to-date core growth rate of 3%, we project approximately 83,244 tons of converted products being shipped in 2015, up from our previous projection of 78,700 tons. For 2015, we project selling prices of $2,030/ton for converted products and $895/ton for parent rolls. The decrease in converted product selling prices in 2015 is due to a full year of contribution from Fabrica with its lower selling prices. The increase in 2015 parent roll selling prices is consistent with the 1.5% increase in paper selling prices projected by IBISWorld. Paper price gains are supported by the fact that falling demand is being outpaced by contracting supply which should result in slowly increasing prices. Our selling price projection may prove to be conservative as Orchids' average selling prices have increased at an average annual rate of 3.6% over the past three years while paper industry selling prices have remained relatively flat.

Revenue Model

2013	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	52,592	$ 2,084	$ 109,611
Parent Roll	6,726	$ 1,006	$ 6,763
Total	59,318	$ 1,962	$ 116,374
2014	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	67,870	$ 2,039	$ 138,382
Parent Roll	4,922	$ 882	$ 4,342
Total	72,792	$ 1,961	$ 142,724
2015	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	83,244	$ 2,030	$ 168,985
Parent Roll	1,000	$ 895	$ 895
Total	84,244	$ 2,017	$ 169,880
2016	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	81,066	$ 2,060	$ 166,996
Parent Roll	1,000	$ 908	$ 908
Total	82,066	$ 2,046	$ 167,904

Source: Company filings and Taglich Brothers estimates

Orchids' agreement with Fabrica provides for the purchase of up to 19,800 tons of product annually with the option to purchase an additional 7,700 tons annually in each of the first two years. As the option to purchase the additional tonnage ends in 2H16, we project a reduction in 2016 total converted tonnage to 81,066. We project 2016 selling prices of $2,060/ton for converted products and $908/ton for parent rolls, consistent with the 1.5% increase in paper selling prices projected by IBISWorld.

There are no sales contracts guaranteeing these orders. However, customer order streams are fairly constant and typically last several years.

Orchids' gross margins have steadily improved since 2011 as growing sales of higher margin converted products have contributed an increasing percentage of total sales. However, in 2014, gross margins fell due primarily to the company shutting down and demolishing two of its older paper machines in 2H14, starting the construction and installation of a new paper machine, and purchasing parent rolls in the open market. This had the adverse effect of increasing COGS by approximately $1.6 million or about 5% in 4Q14. 4Q14 gross margins would have been approximately 20.5% when the effects from the paper machine shutdown and demolition, and open market parent roll purchases are excluded. The seasonality of higher energy costs in the Mexicali plant, typical in the second half, adversely affected gross margins by another 3%. Thus we are projecting gross margins to be lower in the second half of a year than the first half. We project gross margins gradually increasing in 2015 and 2016 (see table at right) as the costs associated with the plant shutdown and parent roll purchases in the open market end, and production from a new, more efficient paper machine (in March 2015) begins.

	2011A	2012A	2013A	2014A	2015E	2016E
Conv. Tons	39,104	43,661	52,592	67,870	83,244	82,181
Total Tons	55,514	53,995	59,318	72,792	84,244	83,181
Conv. Ton %	70.4%	80.9%	88.7%	93.2%	98.8%	98.8%
Gross Margin	16.3%	22.4%	24.0%	18.7%	19.2%	22.0%

Source: Company filings and Taglich Brothers estimates

We project 2015 revenue of $169.9 million and net income of $14 million or $1.59 per share. The change in our projections (previously $161.8 million revenue and $16.8 million or $1.91 per share net income) stems primarily from increased converted product sales and lower margins than previously anticipated due to greater than expected costs associated with the shutdown of the older paper machines and continued parent roll purchases into 1Q15.

We project SG&A expenses of $10.4 million in 2015 (of which approximately 1.1% or $1.9 million of sales are commission-related), lower by $1.3 million due primarily to the absence of $1.6 million costs related to the Fabrica transaction. Operating margins are projected to increase to 12.3% from 10% due primarily to the gross profit gains discussed earlier and lower SG&A expenses. The tax rate is estimated at 32%.

For 2015 we project Orchids will generate $27.1 million cash from operations primarily from cash earnings. Cash from operations and $7.4 million from increased debt and stock option exercises will nearly cover $22.4 million of capital expenditures and $12.3 million in dividends, decreasing cash by $171,000 to $850,000 at December 31, 2015.

We project 2016 revenue of $170.2 million and net income of $17.3 million or $1.96 per share. The flat revenue stems from lower converted product shipments (discussed above). A full year of production from the new, more efficient, paper machine, and the absence of costs associated with the paper machine shutdowns and parent roll purchases in the open market, should improve gross margins and increase net income.

We project SG&A expenses of $10.4 million in 2016 (of which approximately 1.1% or $1.8 million of sales are commission-related). Operating margins are projected to increase to 15.1% from 12.3% due primarily to gross profit gains. The tax rate is estimated at 32%.

For 2016 we project Orchids will generate $30.1 million cash from operations primarily from cash earnings. Cash from operations should be offset from $12 million of capital expenditures, a $7 million pay down of debt, and $12.3 million in dividends, increasing cash by $242,000 to $1.1 million at December 31, 2016.

Risks

Customer concentration
Four customers (Dollar General, HEB, Family Dollar and Wal-Mart) accounted for approximately 72% of total sales in 2014. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition
Competitors have penetrated Orchids' operating region. More intense competition in the company's market has reduced some of its competitive cost advantages and put pressure on selling prices.

Orchids may not be able to sell the capacity from its expanded converting line
Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

Fabrica acquisition
In June 2014, Orchids acquired various assets and business operations from Fabrica. There can be no assurance that Orchids will fully realize the anticipated benefits of the transaction. Further, as a result of the Fabrica transaction, Orchids' indebtedness is now greater than it was prior to the acquisition.

No reliance on contracts
Sales contracts are not the norm in the industry. Although orders typically result in multi-year revenue streams, there can be no guarantee as to their length.

Liquidity risk

Microcap stocks typically have small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 7 million shares in the float with an average daily volume of approximately 29,000 shares.

Miscellaneous risks

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

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	2012A	2013A	2014A	2015E	2016E
Cash	5,734	7,205	1,021	850	1,092
Accounts receivable	5,406	6,585	9,121	10,858	10,877
Inventories	10,275	10,921	9,650	11,418	11,044
Short term investments	5,027	5,035	-	-	-
Income taxes receivable	607	-	634	984	1,138
Prepaid expenses	637	863	1,285	1,285	1,285
Receivable from related party	-	-	1,086	-	-
VAT receivable	-	-	1,734		
Other	44	146	887	887	887
Deferred income taxes	393	552	614	952	1,103
Total current assets	28,123	31,307	26,032	27,234	27,426
Property, plant and equipment	91,188	95,745	119,720	132,229	134,180
Intangible assets	-	-	17,237	15,737	14,537
Goodwill	-	-	7,560	7,560	7,560
Deferred debt issuance costs	47	40	190	190	190
Total Assets	119,358	127,092	170,739	182,950	183,893
Bank overdrafts	-	-	1,706	-	-
Accounts payable	3,685	3,685	11,391	13,478	13,037
Accrued liabilities	2,832	4,030	3,747	4,460	4,468
Current portion of long-term debt	1,152	1,152	2,700	2,700	2,700
Total current liabilities	7,669	8,867	19,544	20,639	20,205
Long-term debt	15,079	13,927	33,662	39,662	32,662
Deferred income taxes	19,432	19,449	17,020	17,020	17,020
Total liabilities	42,180	42,243	70,226	77,321	69,887
Total stockholders' equity	77,178	84,849	100,513	105,629	114,006
Total liabilities & stockholders' equity	119,358	127,092	170,739	182,950	183,893

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2012A	2013A	2014A	2015E	2016E
Net sales	100,819	116,374	142,724	169,900	170,200
Cost of sales	78,253	88,494	115,985	137,236	132,741
Gross profit	22,566	27,880	26,739	32,664	37,459
Intangibles amortization			753	1,292	1,292
SG&A expenses	8,456	9,471	11,675	10,400	10,400
Operating income (loss)	14,110	18,409	14,311	20,972	25,767
Interest expense	407	371	271	360	360
Other (income) expense	302	(173)	181	-	-
Income (loss) before taxes	13,401	18,211	13,859	20,612	25,407
Income tax expense (benefit)	4,144	4,892	4,394	6,596	8,130
Net income (loss)	9,257	13,319	9,465	14,016	17,277
EPS	1.18	1.67	1.11	1.59	1.96
Shares Outstanding	7,832	7,937	8,539	8,830	8,830
Margin Analysis					
Gross margin	22.4%	24.0%	18.7%	19.2%	22.0%
SG&A expenses	8.4%	8.1%	8.2%	6.1%	6.1%
Operating margin	14.0%	15.8%	10.0%	12.3%	15.1%
Net margin	9.2%	11.4%	6.6%	8.2%	10.2%
Tax rate	30.9%	26.9%	31.7%	32.0%	32.0%
Year / Year Growth					
Total Revenues	3.0%	15.4%	22.6%	19.0%	0.2%
Net Income	49.4%	43.9%	(28.9%)	48.1%	23.3%
EPS	47.3%	41.3%	(33.6%)	43.2%	23.3%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2014, 2015, and 2016
(in thousands $)

	3/14A	6/14A	9/14A	12/14A	2014A	3/15E	6/15E	9/15E	12/15E	2015E	3/16E	6/16E	9/16E	12/16E	2016E
Net sales	27,759	29,196	44,429	41,340	142,724	39,400	42,500	45,500	42,500	169,900	41,200	44,400	43,750	40,850	170,200
Cost of sales	21,741	23,706	35,645	34,893	115,985	33,700	33,575	36,173	33,788	137,236	31,518	33,966	34,781	32,476	132,741
Gross profit	6,018	5,490	8,784	6,447	26,739	5,700	8,925	9,327	8,712	32,664	9,682	10,434	8,969	8,374	37,459
Intangibles amortization		108	322	323	753	323	323	323	323	1,292	323	323	323	323	1,292
SG&A expenses	2,179	4,407	2,541	2,548	11,675	2,600	2,600	2,600	2,600	10,400	2,600	2,600	2,600	2,600	10,400
Operating income (loss)	3,839	975	5,921	3,576	14,311	2,777	6,002	6,404	5,789	20,972	6,759	7,511	6,046	5,451	25,767
Interest expense	13	112	90	56	271	90	90	90	90	360	90	90	90	90	360
Other (income) expense	1	(7)	147	40	181	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes	3,825	870	5,684	3,480	13,859	2,687	5,912	6,314	5,699	20,612	6,669	7,421	5,956	5,361	25,407
Income tax expense (benefit)	1,182	324	1,854	1,034	4,394	860	1,892	2,020	1,824	6,596	2,134	2,375	1,906	1,716	8,130
Net income (loss)	2,643	546	3,830	2,446	9,465	1,827	4,020	4,294	3,875	14,016	4,535	5,046	4,050	3,645	17,277
EPS	0.32	0.07	0.44	0.28	1.11	0.21	0.46	0.49	0.44	1.59	0.51	0.57	0.46	0.41	1.96
Shares Outstanding	8,153	8,346	8,824	8,823	8,539	8,830	8,830	8,830	8,830	8,830	8,830	8,830	8,830	8,830	8,830
Margin Analysis															
Gross margin	21.7%	18.8%	19.8%	15.6%	18.7%	14.5%	21.0%	20.5%	20.5%	19.2%	23.5%	23.5%	20.5%	20.5%	22.0%
SG&A expenses	7.8%	15.1%	5.7%	6.2%	8.2%	6.6%	6.1%	5.7%	6.1%	6.1%	6.3%	5.9%	5.9%	6.4%	6.1%
Operating margin	13.8%	3.3%	13.3%	8.7%	10.0%	7.0%	14.1%	14.1%	13.6%	12.3%	16.4%	16.9%	13.8%	13.3%	15.1%
Net margin	9.5%	1.9%	8.6%	5.9%	6.6%	4.6%	9.5%	9.4%	9.1%	8.2%	11.0%	11.4%	9.3%	8.9%	10.2%
Tax rate	30.9%	37.2%	32.6%	29.7%	31.7%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Year / Year Growth															
Total Revenues	4.3%	(0.1%)	49.3%	34.3%	22.6%	41.9%	45.6%	2.4%	2.8%	19.0%	4.6%	4.5%	(3.8%)	(3.9%)	0.2%
Net Income	(14.5%)	(82.6%)	2.9%	(27.2%)	(28.9%)	(30.9%)	NMF	12.1%	58.4%	48.1%	148.2%	25.5%	(5.7%)	(5.9%)	23.3%
EPS	(17.3%)	(83.4%)	(6.4%)	(34.0%)	(33.6%)	(36.2%)	NMF	10.5%	58.3%	43.2%	148.2%	25.5%	(5.7%)	(5.9%)	23.3%

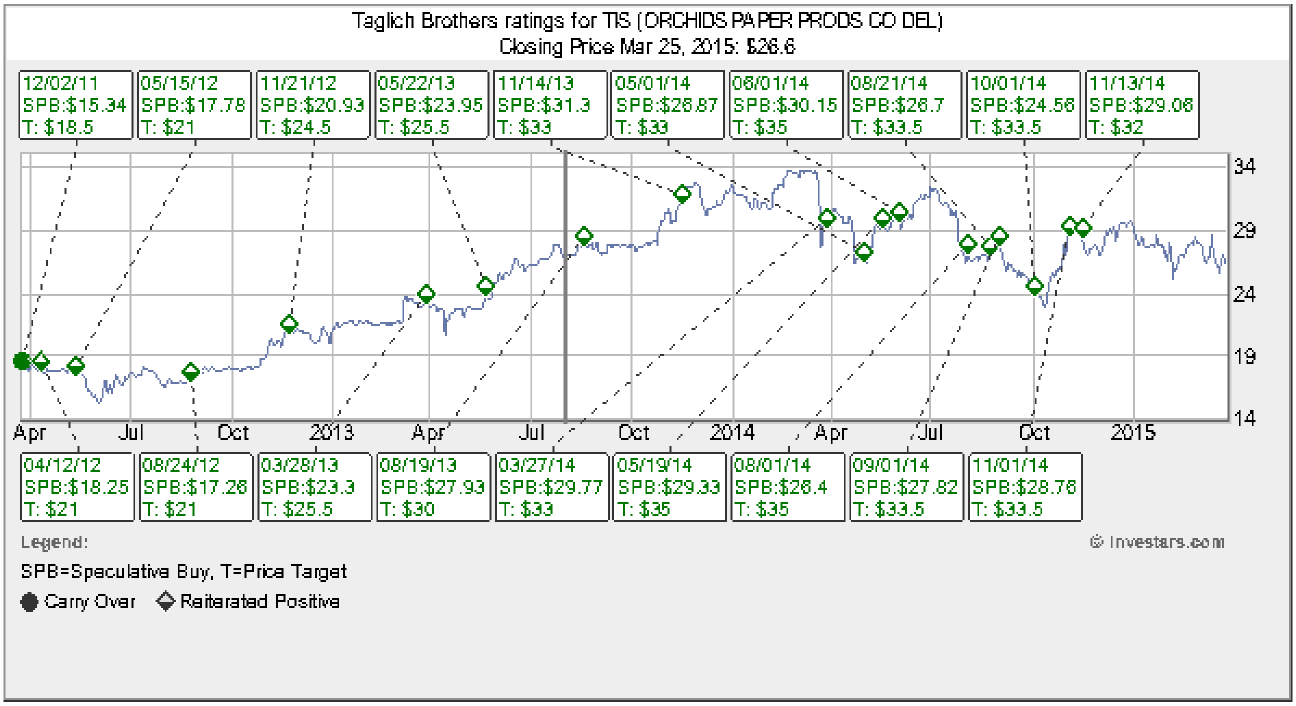
Source: Company filings and Taglich Brothers' estimates

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

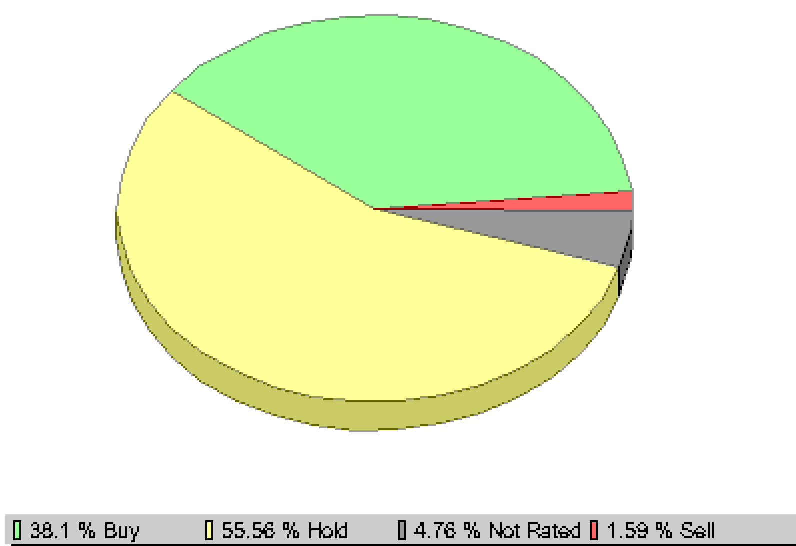
	2012A	2013A	2014A	2015E	2016E
Net income(loss)	9,257	13,319	9,465	14,016	17,277
Depreciation and amortization	7,548	7,621	9,749	11,391	11,249
Provision for doubful accounts	(20)	10	20	20	20
Deferred income taxes	648	(142)	(2,491)	-	-
Stock based compensation	346	346	1,879	2,000	2,000
(Gain) loss on disposal of property, plant and equipment	336	(146)	8	-	-
Cash earnings	18,115	21,008	18,630	27,427	30,546
Changes in assets and liabilities					
Accounts receivable	1,553	(1,189)	(2,556)	(1,737)	(19)
Inventories	(2,464)	(646)	1,272	(1,768)	374
Prepaid expenses	(107)	(226)	(422)	-	-
Income taxes receivable	(322)	607	(634)	406	(325)
Other current assets	294	44	(3,560)	-	-
Accounts payable	165	-	7,706	2,087	(441)
Acrrued liabilities	217	1,198	(284)	713	8
(Increase) decrease in working capital	(664)	(212)	1,522	(298)	(404)
Net Cash Provided by (Used in) Operations	17,451	20,796	20,152	27,129	30,142
Acquisition of Fabrica's US business	-	-	(16,700)	-	-
Proceeds from the sale of investment securities	-	(8)	5,037	-	-
Purchase of investment securities	(3,008)	-	(2)	-	-
Purchase of property and equipment	(6,780)	(12,171)	(25,769)	(22,400)	(12,000)
Net Cash Provided by (Used in) Investing	(9,788)	(12,179)	(37,434)	(22,400)	(12,000)
Borrowings on long-term debt	-	-	30,000	-	-
Principal payments on long-term debt	(1,152)	(1,152)	(16,429)	(2,000)	(2,000)
Repayment of long-term debt at maturity	-	-	-	-	-
Repayment of long-term debt prior to maturity	-	-	-	-	-
Net borrowings (repayments) on revolving credit line	-	-	7,712	8,000	(5,000)
Bank overdrafts	-	-	1,706	-	-
Proceeds from the exercise of stock options	974	3,305	79	1,000	1,000
Excess tax benefit of stock options exercised	395	1,409	20	400	400
Deferred debt issuance cost	-	-	(209)	-	-
Dividends paid	(6,443)	(10,708)	(11,781)	(12,300)	(12,300)
Net Cash Provided by (Used in) Financing	(6,226)	(7,146)	11,098	(4,900)	(17,900)
Net Change in Cash	1,437	1,471	(6,184)	(171)	242
Cash - Beginning of Period	4,297	5,734	7,205	1,021	850
Cash - End of Period	5,734	7,205	1,021	850	1,092
Cash Flow from Operations	17,451	20,796	20,152	27,129	30,142
Capital Expenditures	(6,780)	(12,171)	(25,769)	(22,400)	(12,000)
Free Cash Flow	10,671	8,625	(5,617)	4,729	18,142

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	7
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of TIS common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 121,473 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 67,268 shares of TIS common stock and 135,413 shares of restricted stock. Richard Oh, Managing Director of Taglich Brothers, Inc., owns 13,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 44,150 shares of TIS common stock and 33,750 stock options. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

All research issued by Taglich Brothers, Inc. is based on public information. From April 2008 to December 2012, the company paid a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

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Analyst Certification

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

Cascades (OTC PK: CADNF)
Clearwater Paper (NYSE: CLW)
Dollar General (NYSE: DG)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

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.