Research Report – Update

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

Orchids Paper Products Company

Rating: Buy

John Nobile
March 27, 2009

TIS $12.65 — (NYSE AMEX)

	FY(2006)A	FY(2007)A	FY(2008)A	FY(2009)E
Revenues (millions)	$60.2	$74.6	$90.2	$104.0
Earnings (loss) per share	$0.11	$0.40	$0.79	$1.73

52-Week range	$13.50 – $5.95	Fiscal year ends:	December
Shares outstanding as of 2/27/09	6.4 million	Revenue per share (TTM)	$13.89
Approximate float	4.9 million	Price/Sales (TTM)	0.9X
Market capitalization	$81 million	Price/Sales (FY2009)E	0.8X
Tangible book value/share	$5.30	Price/Earnings (TTM)	16.0X
Price/tangible book value	2.4X	Price/Earnings (FY2009)E	7.2X

Headquartered in Pryor, Oklahoma, Orchids Paper Products 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, due to their consistent order patterns, limited number of stock keeping units offered and the growth being experienced in this channel of the retail market. (www.orchidspaper.com)

Key investment considerations:

We are reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS) and increasing our twelve-month price target to $22.00 per share (previously $15.00) based on increased earnings estimates. The Company has managed to post impressive results despite the struggling economy.

On February 25, 2009, Orchids reported that fourth quarter net sales increased 20% to $24.3 million from $20.3 million and net income increased to $2.3 million or $0.34 per diluted share versus net income of $0.9 million or $0.13 per diluted share.

Management said that the at-home tissue market remained strong and its customer base continues to provide Orchids with a strong backlog even in the current difficult economic conditions. Further, the Company's additional converting production has allowed it to take advantage of opportunities in the market place to increase market share.

We are projecting Orchids' revenue in fiscal 2009 to increase to $104.0 million and net income to increase to $11.4 million or $1.73 per diluted share. We believe Orchids will generate $15.5 million cash from operations in fiscal 2009. Our previous projections called for fiscal 2009 revenue of $106.2 million, cash flow of $14.1 million, and net income of $9.1 million or $1.40 per diluted share. The increase in our earnings estimates is primarily due to better margins than we originally estimated and continued guidance calling for a 10% increase in converted tonnage being shipped from current levels.

****Please view our disclaimer located on page 13.***

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Business

In March 2004, Orchids Acquisition Group, Inc. acquired the Company for a price of $21.6 million. 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 at $8.00 per share ($5.33 adjusted for a 3-for-2 stock split in July 2006) and began trading on the American Stock Exchange under the symbol TIS.

Headquartered in Pryor, Oklahoma, Orchids Paper Products 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, due to their consistent order patterns, limited number of stock keeping units (SKUs) offered and the growth being experienced in this channel of the retail market. While Orchids has customers located throughout the United States, it distributes most of its products within approximately 900 miles of its northeast Oklahoma facility, which it considers to be 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®. Revenue is derived pursuant to truck load purchase orders and is recognized when title passes to the customer. Orchids does not have supply contracts with any of its customers. Because Orchids products are daily consumable items, order streams are fairly consistent with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products.

Market

The US tissue market is a very large market. According to Tissue World Magazine, the US tissue market was almost a $13 billion market in 2007. In October 2008, RISI (an information provider for the global forest products industry) reported that the United States remained the largest single market because of its continued growth in per capita consumption. RISI said that the North American tissue market was comprised of toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%) and other users, including sanitary (1%).

Although the overall tissue market in the US is projected to grow minimally over the next four years, by 2011, non-grocery retailers, like the dollar stores that Orchids sells to, are projected to take an additional 20%[1] of the market share away from traditional grocery retailers.

ACNielsen (the world's leading marketing information company) reported that paper products represent the second best selling items at dollar stores based on dollar sales.

During the past few years, dollar store expansion has occurred at a remarkable pace and this expansion shows no sign of slowing. Dollar stores' consumer bases have grown due to higher fuel costs, which continue to impact the economy and consumer spending.

Higher income consumers are increasingly looking to dollar stores to save money as gas prices continue to grow. In fact, the oldest single-price retail chain in the United States, 99 Cents Only, boasts that its most popular store is in Beverly Hills, where the majority of consumers earn very high incomes.

1. Overview of the Retail Dollar Store Market in the United States, Opportunities for Canadian Agri-food Exporters, Government of Canada, July 2007

4th Quarter and Full Year Financial Results

For the fourth quarter ended December 31, 2008 versus the same period in 2007:

- Net sales increased 20% to $24.3 million from $20.3 million.
- Gross margins increased to 22.2% from 15.9%.
- Selling, general and administrative (SG&A) expenses increased to $1.8 million from $1.7 million.
- Interest expense decreased to $0.3 million from $0.6 million.
- The effective tax rate was 30% versus 7%.
- Net income was $2.3 million or $0.34 per diluted share versus net income of $0.9 million or $0.13 per diluted share.

In comparison, Taglich Brothers' estimates called for fourth quarter net sales of $24.7 million and net income of $2.0 million or $0.31 per diluted share.

Converted product sales increased to $21.1 million from $17.3 million while parent roll sales increased to $3.2 million from $3.0 million. The increase in converted product sales was primarily due to a 23% increase in the net selling price per ton which was slightly offset by lower tonnage shipped. The increase in parent roll sales was primarily due to a 9% increase in net selling prices which was slightly offset by lower tonnage shipped. Total tons shipped decreased to 13,184 from 13,339, while paper costs increased to approximately $10.9 million from approximately $10.2 million. The overall net selling price per ton increased to $1,843 from $1,520.

The increase in gross margins was primarily due to higher selling prices. Converting costs increased primarily due to the cost of outside warehousing of approximately $0.3 million and higher maintenance and repair costs of approximately $0.3 million.

The increase in SG&A expenses was primarily due to higher commission expenses associated with the higher sales levels.

The decrease in interest expense was the result of lower LIBOR interest rates and the redeeming of the Company's 12% subordinated debentures, which were retired in December 2007.

For the fiscal year ended December 31, 2008 versus the same period in 2007:

- Net sales increased 21% to $90.2 million from $74.6 million.
- Gross margins increased to 16.6% from 14.6%.
- Selling, general and administrative (SG&A) expenses increased to $6.3 million from $5.2 million.
- Interest expense decreased to $1.4 million from $2.8 million.
- The effective tax rate was 30% versus 11%.
- Net income was $5.2 million or $0.79 per diluted share versus net income of $2.6 million or $0.40 per diluted share.

In comparison, Taglich Brothers' estimates called for fiscal 2008 net sales of $90.6 million and net income of $4.9 million or $0.76 per diluted share.

Converted product sales increased to $74.9 million from $65.4 million, while parent roll sales increased to $15.3 million from $9.3 million. The increase in converted product sales was primarily due to a 15% increase in the net selling price per ton which was slightly offset by lower tonnage shipped. The increase in parent roll sales was primarily due to a 43% increase in tonnage shipped and a 15% increase in selling prices. Total tons shipped increased to 54,207 from 50,706, while paper costs increased to approximately $44.2 million from approximately $38.2 million. The overall net selling price per ton increased to $1,664 from $1,472.

The increase in gross margins was primarily due to higher selling prices and volumes. Converting costs increased primarily due to the cost of outside warehousing of approximately $0.6 million and higher maintenance and repair costs of approximately $1.0 million.

The increase in SG&A expenses was primarily due to higher costs associated with additions to the Company's senior management team in late 2007 and during 2008, increased accruals under the Company's incentive bonus plan, higher commission expense and increased packaging-related selling costs.

The decrease in interest expenses was due to lower LIBOR rates and the redemption of the Company's subordinated debentures as mentioned earlier.

Contributing to the reduced tax rate for 2008 year were Oklahoma Investment Tax Credits associated with the Company's 2006 investment in a new paper machine. The Federal Indian Employment Credit, which was extended in October 2008 through December 31, 2009, also contributed to the reduced tax rate. Orchids continues to have net operating loss (NOL) carryforwards for federal and Oklahoma taxes and expects the federal NOL carryforward ($3.1 million as of December 31, 2008) to be fully exhausted in 2009.

Oklahoma Investment Tax Credits associated with the new paper machine and the Federal Indian Employment Credit also contributing to the reduced tax rate for 2007. Further benefiting the 2007 tax rate was the recognition of tax benefits associated with Management and Directors' stock options not qualifying as Incentive Stock Options under the Internal Revenue Code.

Balance Sheet

As of December 31, 2008, Orchids had $0.011 million in cash. Orchids had working capital of $3.5 million, long-term debt of $21.1 million, and a tangible book value of $5.30 per share. The Company generated approximately $8.5 million cash from operations during fiscal 2008. Cash used in investing activities was $6.9 million of which $4.3 million was related to expenditures related to an automation project in the Company's converting operation. Cash used in financing was $1.6 million as a result of scheduled principal payments on bank term loans.

On November 5, 2008, the Company amended its credit agreement with its existing bank group with the following terms:

- an $8.0 million revolving credit facility with a 3-year term;
- a $10.0 million Term Loan A with a ten-year term, no principal repayments for the first 24 months and then will be amortized as if it had an 18-year life;
- a $16.5 million Term Loan B with a four year-term and is being amortized as if it had a six-year life; and
- a $4.0 million capital expenditures facility with a four-year term that will be amortized as if it had a five-year life.

We believe that the Company's future cash from operations and current credit arrangement will be sufficient to fund the Company's operations for next twelve months.

New Line of "Green" Paper Products

In March 2009, in response to consumers' desire for more environmentally friendly products, Orchids announced its "care®" line of paper towels and bathroom tissue made from 100% recycled paper void of inks or perfumes. "care®" stands for "customers aware of a renewing environment". The new "care®" products offer an affordable option to shoppers that are concerned about helping the environment and are slated to be in stores starting early May 2009 in the mid-west and mid-south regions of the United States.

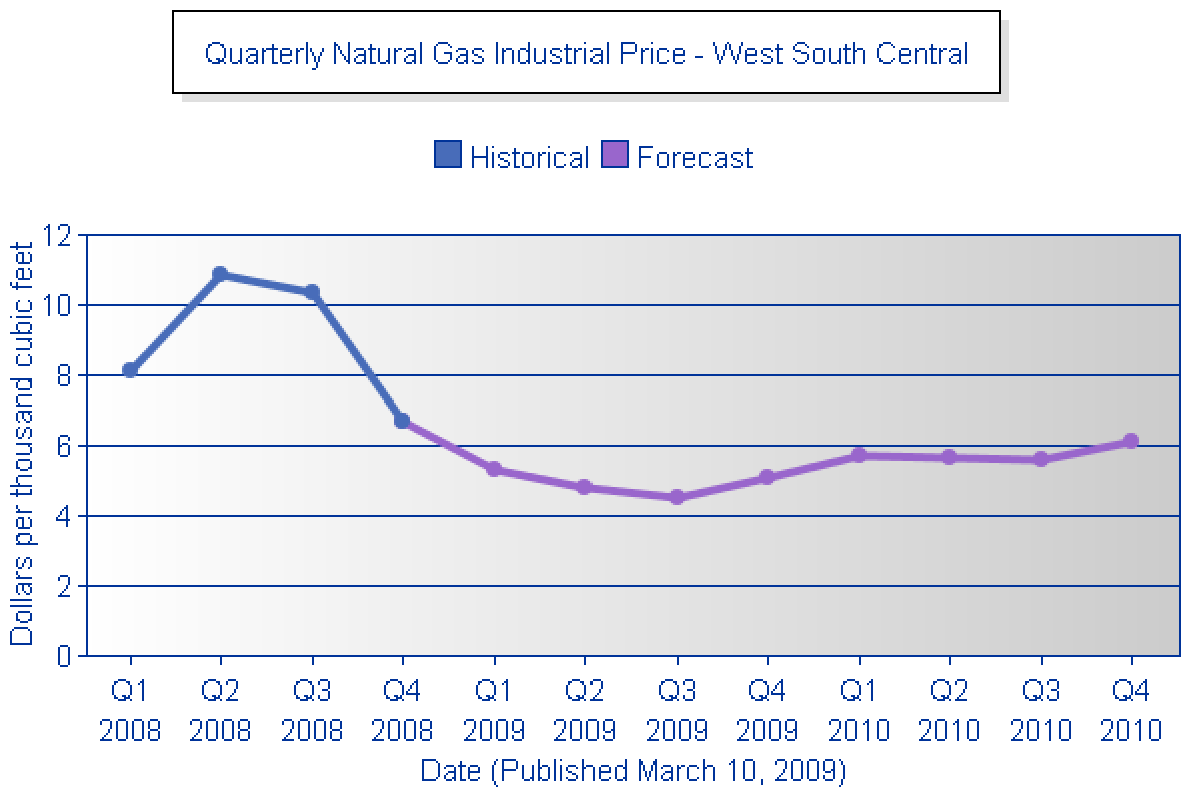
Discussion

With the Company operating at approximately full capacity in regard to parent rolls, we believe that any improvement in the bottom line will come from margin expansion. In this regard, Orchids has taken steps to improve it margins.

1. In the third quarter of 2008, Orchids hired a productivity consultant to improve productivity in its converting operation. The productivity consultant's engagement, which ended in mid-September, included designing and implementing a management operating system and assisting the Company's Management team in implementing a new work schedule and work practices. The management operating system helped identify and confirm the root causes of issues which impaired production. Higher than normal maintenance and repair costs in the third quarter of 2008 ($0.5 million increase) primarily resulted from addressing those issues. Orchids expects its level of maintenance expenditures experienced in the fourth quarter to represent a normalized level of future expenditures.

2. We believe the best way for the Company to improve its margins would be to increase the amount of converted product shipped as it normally has significantly higher margins than parent roll shipments. While the Company does not breakdown the tonnage of converted product, in the fourth quarter of 2008, Orchids generated 87% of its total revenue from converted products versus 85% in the fourth quarter of 2007. In its fourth quarter conference call, Management said it was looking to grow converted product by 10% in 2009.

3. We believe the outlook for natural gas prices will be beneficial in forecasting gross margins for the Company. In March 2009, the Energy Information Administration (EIA) forecasted West South Central U.S. (includes Oklahoma) natural gas prices to remain at reduced levels over the next two years from the high levels achieved in 2008. We believe the EIA forecast supports an improvement in gross margins going forward.



Source: Energy Information Administration

The Company is obligated through March 2009 to purchase all of its natural gas requirements through a program established by its broker that utilizes a combination of fixed price contracts, options and spot purchases. Beginning in the latter part of the third quarter, prices for natural gas futures began to decrease. In response to this, the Company entered into a fixed price contract in late October 2008 with its broker for approximately 60% of its natural gas requirements at $7.50 per MMBTU for the period from April 2009 through March 2010. The remaining 40% of the Company's requirements for the April 2009 through March 2010 time period will be purchased under the current program of a combination of fixed price contracts, options and spot purchases.

4. Management said in its fourth quarter earnings release that the converting automation project was completed in February 2009. The Company previously disclosed that this project should result in reduced cash costs of approximately $2 million annually.

Projections

Management said that the at-home tissue market remained strong and its customer base continues to provide Orchids with a strong backlog even in the current difficult economic conditions. Management said the Company’s additional converting production has allowed it to take advantage of opportunities in the market place to increase market share.

In regard to the first quarter of 2009, Management said that it has seen softening in the parent roll market, both in price and demand, primarily due to a weakened away-from-home market. In order to balance its inventories, Orchids expects to take some downtime on its older machines during the first quarter of 2009. The amount of downtime it expects to take was not completely clear at the time of the earnings release due to the uncertainty of the timing of the recovery of the away-from-home market; however, Orchids does not expect it to be significant.

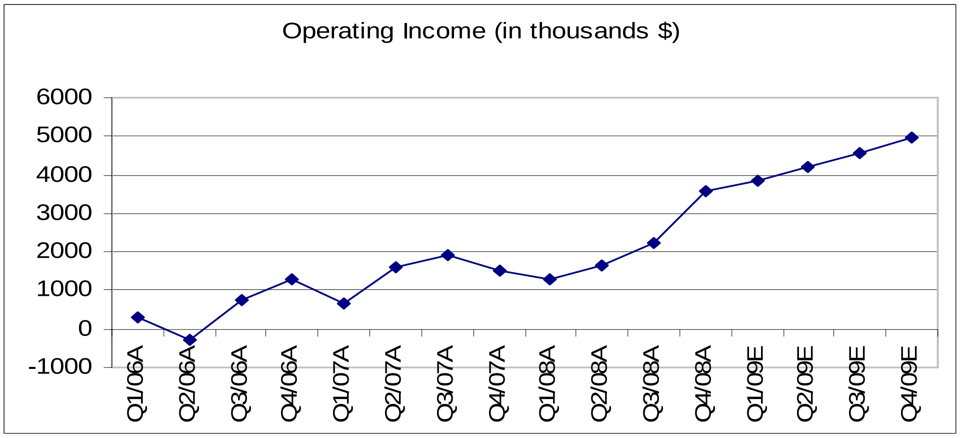
On the first quarter conference call, we asked Management for clarification on how much weaker parent roll sales appeared to be in January and February when compared to the same periods last year. Management said that they appeared to be at about the same level in January and down about 5% or less in February. Realizing that parent roll sales contributed approximately 13% to Orchid’s fourth quarter total sales, it appears that the recent minimal downturn in parent roll sales may be of little significance.

We are projecting Orchids’ revenue in fiscal 2009 to increase to $104.0 million and net income to increase to $11.4 million or $1.73 per diluted share. We believe Orchids will generate $15.5 million cash from operations in fiscal 2009. Our previous projections called for fiscal 2009 revenue of $106.2 million, cash flow of $14.1 million, and net income of $9.1 million or $1.40 per diluted share. The decrease in our revenue estimate is primarily due to lower than anticipated revenue than we originally estimated. The increase in our earnings estimates is primarily due to better margins than we originally estimated and continued guidance calling for a 10% increase in converted tonnage being shipped from current levels.

Our fiscal 2009 estimates are made with the following assumptions:

- Orchids operating at 100% manufacturing capacity (for parent rolls)
- Increased selling prices due to a greater percentage of converted product being shipped
- Gross margins firming to 23.9% also due to a greater percentage of converted product being shipped and a full year of contribution coming from a reduction in cost of sales related to automating the converting process
- SG&A expenses increasing due to increased converted product sales.
- A tax rate of 30% (fourth quarter conference call guidance)

Listed below is a chart showing Orchids' growth in operating income throughout the past few years along with our estimates for 2009:



Source: Company filings and Taglich Brothers' estimates

Management

Robert A. Snyder, President and Chief Executive Officer - Mr. Snyder was appointed as President and CEO of Orchids Paper Products on August 20, 2007. He most recently served as General Manager of KTG USA, a subsidiary of Kruger, Inc. Prior to his tenure at KTG USA, Mr. Snyder served in various capacities with Kruger, Inc., Great Northern Paper, Inc., Alliance Forest Products U.S. Corporation and Bear Island Paper Company.

Keith R. Schroeder, Chief Financial Officer - Mr. Schroeder has been the CFO of Orchids Paper Products since 2002. Prior to joining Orchids, he was Corporate Finance Director for Kruger Inc.'s tissue operations and Vice President of Finance and Treasurer of Global Tissue (Global was acquired by Kruger). Mr. Schroeder also held a number of finance and accounting positions with Cummins Engine Company and Atlas Van Lines. He is a Certified Public Accountant.

Risks

Competition

Orchids faces intense competition and if it cannot successfully compete in the marketplace, its business, financial condition and operating results may be materially adversely affected. The Company's ability to compete successfully depends upon a variety of factors, including:

- aggressive pricing by competitors, which may force Orchids to decrease prices in order to maintain market share;
- the Company's ability to improve plant efficiencies and operating rates and lower manufacturing costs;
- the availability, quality and cost of raw materials, particularly recycled waste paper and labor; and
- the cost of energy.

Customer concentration

A substantial percentage of Orchids' product revenues are attributable to three significant customers (Dollar General, Family Dollar, and Wal-Mart). During the fiscal year ended December 31, 2008, sales to the three significant customers accounted for approximately 64% of the Company's total sales. The Company expects that sales to a limited number of customers will continue to account for a substantial portion of its revenues for the foreseeable future. Sales to these customers are made pursuant to purchase orders and not supply agreements. Orchids may not be able to keep its key customers or these customers may cancel purchase orders or reschedule or decrease their level of purchases from the Company. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Significant indebtedness

Orchids has significant indebtedness which limits its free cash flow and subjects the Company to restrictive covenants relating to the operation of its business. At December 31, 2008, Orchids had $24.1 million of indebtedness. Operating with this amount of leverage requires the Company to direct a significant portion of its cash flow from operations to make payments on its debt, which reduces the funds otherwise available for operations, capital expenditures, future business opportunities and other purposes.

Substantial capital requirements

Orchids' operations require substantial capital. For example, under new environmental standards, the Company is required to build a water treatment facility costing approximately $4.3 million to reduce biological oxygen demand and total suspended solids from its discharge water. In 2008, Orchids' spent $4.7 million on its converting automation project.

The Company's current levels of business have resulted in the necessity to utilize a third-party warehouse and Orchids may build a new warehouse adjacent to its converting facility, which it estimates would cost up to $8.0 million. In addition, the Company will likely need to acquire additional converting equipment to allow access to new markets and to consume the additional parent roll capacity from its new paper machine project which it currently estimates would cost $15 million to $18 million. If capital resources are inadequate to provide for operating needs, capital expenditures and other cash requirements, this shortfall could have a material adverse effect on Orchids' business and liquidity.

Cost of energy

The availability of and prices for energy will significantly impact Orchids' business. All of the energy necessary to produce its paper products is purchased on the open market and, as a result, the price and other terms of those purchases are subject to change based on factors such as worldwide supply and demand and government regulation.

Orchids relies primarily on natural gas and electric energy. In particular, natural gas prices are highly volatile. The Company's consumption of both natural gas and electricity increased substantially following the start-up of its new paper machine in mid-2006. If energy costs increase, Orchids' cost of sales will increase, and its operating results may be materially adversely affected. Furthermore, the Company may not be able to pass increased energy costs on to its customers if the market does not allow it to raise the prices of its finished products.

In October 2008, Orchids entered into a contract to purchase 334,000 MMBTU natural gas requirements at $7.50 per MMBTU for the period from April 2009 through March 2011. This represents approximately 60% of Orchids' natural gas requirements based on usage rates for 2009. A significant interruption in parent roll production due to tornado, fire, or other natural disaster, adverse market conditions or mechanical failure could reduce the Company's natural gas requirements to a level below that of its contracted amount. If this situation occurs and the market price for natural gas at that time is less than the contracted price, Orchids could be required under the terms of its agreement to reimburse its gas supplier for their lost revenue on the pricing difference on the amount of natural gas purchased under the contract amount.

The parent roll market is a commodity market and subject to fluctuations in demand and pricing

Following the start-up of Orchids' new paper machine in July 2006, its parent roll production exceeded the requirements of its converting operation, which excess tonnage is sold as parent rolls. In addition, in the second quarter of 2007, due to relatively high parent roll prices, Orchids began running all of its older paper machines on a full-time basis, thereby increasing the amount of excess paper. The demand for parent rolls has been relatively high compared to supply for several years, however fluctuations in demand, primarily in the away-from-home market, can affect the supply-demand balance. A significant reduction in demand can result in an over-supply situation if parent roll producers do not adjust capacity, which could negatively affect the market price for parent rolls. A significant reduction in parent roll selling prices could reduce revenues and decrease profits and could cause a shut down of some of Orchids' excess paper making capacity.

Interest rate exposure

Orchids' market risks relate primarily to changes in interest rates. The Company's revolving line of credit and term loans carry a variable interest rate that is tied to market indices and, therefore, statements of income and cash flows will be exposed to changes in interest rates. As of December 31, 2008, Orchids had floating-rate borrowings of $26.5 million. Outstanding balances under its line of credit and term loans bear interest at the prime rate or LIBOR, plus a margin based upon the debt service coverage ratio. Based on the current borrowings, a 100 basis point increase in interest rates would result in a pre-tax $194,000 increase to annual interest expense.

Dependence on Management

Orchids is highly dependent on the principal members of its Management, in particular Robert Snyder, President and Chief Executive Officer, and Keith Schroeder, Chief Financial Officer. The Company has entered into employment agreements with Robert Snyder and Keith Schroeder that expire in 2011. If Orchids is unable to retain Mr. Snyder and Mr. Schroeder or to attract and retain other qualified personnel, its business and ability to compete could be significantly harmed.

Labor interruptions

All of Orchids' hourly paid employees are represented by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Service Workers International Union. The collective bargaining agreement with Local 5-930, which represents the paper mill workers, will expire in February 2011, and the collective bargaining agreement with Local 5-1480, which represents the converting facility workers, will expire in June 2010.

Negotiations of new collective bargaining agreements may result in significant increases in the cost of labor or could breakdown and result in a strike or other disruption of operations. If any of the preceding were to occur, it could impair the Company's ability to manufacture products and result in increased costs and/or decreased operating results. In addition, some of Orchids' key customers and suppliers are also unionized. Disruption in their labor relations could also have an adverse effect on Orchids' business.

Operating at maximum capacity

We believe that Orchids is operating at maximum capacity in regard to parent roll production. As such, we believe that any improvement to the bottom line will have to come from improvement in margins and efficiencies. One way the Company can improve its margins is to sell a greater percentage of converted products. If the Company is unsuccessful at increasing its percentage of converted product sales and/or reducing manufacturing costs, margins could suffer resulting in no improvement to the bottom line.

Liquidity Risk

Shares of TIS have risks common to those of the microcap segment of the market. Often these risks 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 and can lead to large spreads and high volatility in stock price. Orchids has 4.9 million shares in the float with an average daily volume of approximately 15,000 shares.

Miscellaneous Risks

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Conclusion and Valuation

We are reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS). The Company continues to post impressive results despite the struggling economy.

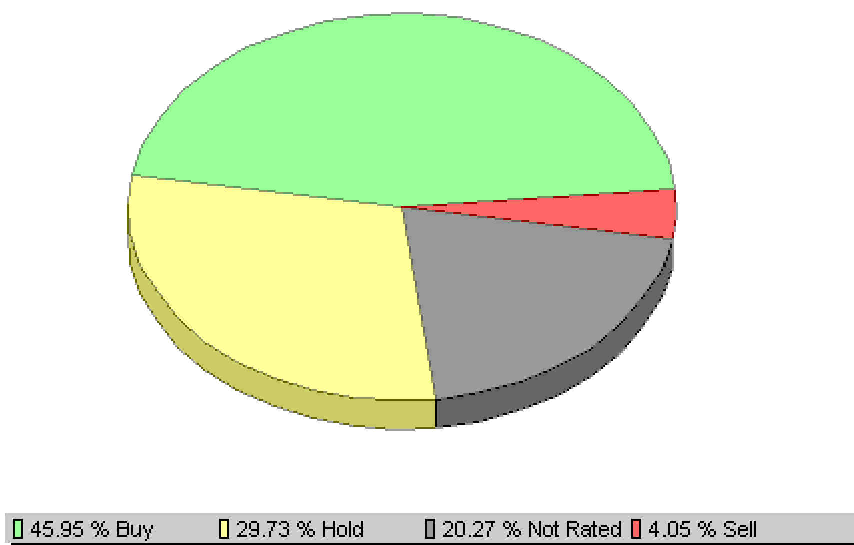
Management said that the at-home tissue market remained strong and its customer base continues to provide Orchids with a strong backlog even in the current difficult economic conditions. Further, the Company's additional converting production has allowed it to take advantage of opportunities in the market place to increase market share.

With the Company operating at approximately full capacity in regard to parent rolls, we believe that any improvement in the bottom line will come from margin expansion. We believe the best way for the Company to improve its margins would be to increase the amount of converted product shipped as it normally has significantly higher margins than parent roll shipments. On the fourth quarter conference call, Management said it was looking to grow converted product by 10% in 2009.

We are projecting Orchids' revenue in fiscal 2009 to increase to $104.0 million and net income to increase to $11.4 million or $1.73 per diluted share. We believe Orchids will generate $15.5 million cash from operations in fiscal 2009. Our previous projections called for fiscal 2009 revenue of $106.2 million, cash flow of $14.1 million, and net income of $9.1 million or $1.40 per diluted share. The increase in our earnings estimates is primarily due to better margins than we originally estimated and continued guidance calling for a 10% increase in converted tonnage being shipped from current levels.

In order to get an appropriate multiple to apply to Orchids' earnings, we looked at the Company's historic earnings multiple (17X), its current multiple (16X), and the discount store industry multiple (15X). With these inputs and given the current market conditions, we believe that a multiple of 15X earnings is reasonable to apply to Orchids' earnings. Applying a multiple of 15X to our fiscal 2009 fully taxed (40% tax rate) earnings estimate of $1.48 per diluted share ($1.73 per diluted share partially taxed), we arrive at a **twelve-month price target of approximately $22.00 per share.**

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	7.41%
Hold	0	0.00%
Sell	0	0.00%
Not Rated	0	0.00%

<u>Meaning of Ratings</u>

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

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.

Public companies mentioned in this report:

99 Cents Only (NYSE: NDN)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

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As of the date of this report, Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 468,966 shares of TIS common stock and 52,575 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 439,067 shares of TIS common stock and 52,575 warrants. Richard Oh, Director of Research and Managing Director of Taglich Brothers, Inc., owns 8,233 shares of TIS common stock and 15,000 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 116,323 shares of TIS common stock, 45,000 warrants, and 7,500 options. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 18,607 shares of TIS common stock and 51,237 warrants. 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. Since April 2008, the company pays a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	December 31, 2006	December 31, 2007	December 31, 2008
Assets			
Current assets:			
Cash	$ 3	$ 3	$ 11
Accounts receivable	5,089	5,527	6,514
Inventories	4,379	4,874	6,253
Restricted certificate of deposit	1,500	-	-
Income taxes receivable	1,242	24	-
Prepaid expenses	306	381	399
Deferred income taxes	346	516	557
Total current assets	12,865	11,325	13,734
Property, plant and equipment	58,039	56,856	60,659
Deferred debt issuance costs	124	122	89
Total Assets	**$ 71,028**	**$ 68,303**	**$ 74,482**
Liabilities & stockholders' equity			
Current liabilities:			
Accounts payable	$ 3,772	$ 4,760	$ 4,699
Accrued liabilities	1,805	2,460	2,584
Current portion of long-term debt	2,263	2,391	2,998
Total current liabilities	7,840	9,611	10,281
Long-term debt	31,575	23,264	21,067
Deferred income taxes	6,909	7,386	9,572
Total liabilities	**46,324**	**40,261**	**40,920**
Total stockholders' equity	**24,704**	**28,042**	**33,562**
Total liabilities & stockholders' equity	**$ 71,028**	**$ 68,303**	**$ 74,482**

Orchids Paper Products Company

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

	FY(12/06)A	FY(12/07)A	FY(12/08)A	FY(12/09)E
Net sales	**$ 60,190**	**$ 74,648**	**$ 90,202**	**$ 104,000**
Cost of sales	53,988	63,717	75,196	79,125
Gross profit	6,202	10,931	15,006	24,875
Selling, general and administrative expenses	4,153	5,234	6,259	7,280
Operating income (loss)	2,049	5,697	8,747	17,595
Interest expense	1,980	2,828	1,361	1,280
Other (income) expense	(99)	(36)	(10)	-
Income (loss) before taxes	168	2,905	7,396	16,315
Income tax expense (benefit)	(564)	307	2,205	4,895
Net income (loss)	**$ 732**	**$ 2,598**	**$ 5,191**	**$ 11,420**
Basic EPS	**$ 0.12**	**$ 0.42**	**$ 0.82**	**$ 1.77**
Diluted EPS	**$ 0.11**	**$ 0.40**	**$ 0.79**	**$ 1.73**
Basic Shares Outstanding	6,234	6,256	6,329	6,450
Diluted Shares Outstanding	6,558	6,465	6,542	6,600
Margin Analysis				
Gross margin	10.30%	14.64%	16.64%	23.92%
Selling, general and administrative	6.90%	7.01%	6.94%	7.00%
Operating margin	3.40%	7.63%	9.70%	16.92%
Net margin	1.22%	3.48%	5.75%	10.98%
Year / Year Growth				
Total Revenues	4.32%	24.02%	20.84%	15.30%
Net Income	-47.41%	254.92%	99.81%	120.00%
EPS	-63.16%	260.02%	97.46%	118.06%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ended December 31, 2007
(in thousands $)

	Q1(3/07)A	Q2(6/07)A	Q3(9/07)A	Q4(12/07)A	FY(12/07)A
Net sales	**$ 16,637**	**$ 18,515**	**$ 19,218**	**$ 20,278**	**$ 74,648**
Cost of sales	14,905	15,762	15,997	17,053	63,717
Gross profit	1,732	2,753	3,221	3,225	10,931
Selling, general and administrative expenses	1,059	1,170	1,296	1,709	5,234
Operating income (loss)	673	1,583	1,925	1,516	5,697
Interest expense	873	708	635	612	2,828
Other (income) expense	(20)	(7)	(2)	(7)	(36)
Income (loss) before taxes	(180)	882	1,292	911	2,905
Income tax expense (benefit)	(49)	139	156	61	307
Net income (loss)	**$ (131)**	**$ 743**	**$ 1,136**	**$ 850**	**$ 2,598**
Basic EPS	**$ (0.02)**	**$ 0.12**	**$ 0.18**	**$ 0.14**	**$ 0.42**
Diluted EPS	**$ (0.02)**	**$ 0.12**	**$ 0.18**	**$ 0.13**	**$ 0.40**
Basic Shares Outstanding	6,234	6,234	6,234	6,320	6,256
Diluted Shares Outstanding	6,234	6,344	6,421	6,562	6,465
Margin Analysis					
Gross margin	10.41%	14.87%	16.76%	15.90%	14.64%
Selling, general and administrative	6.37%	6.32%	6.74%	8.43%	7.01%
Operating margin	4.05%	8.55%	10.02%	7.48%	7.63%
Net margin	-0.79%	4.01%	5.91%	4.19%	3.48%
Year / Year Growth					
Total Revenues	18.00%	35.39%	26.82%	17.47%	24.02%
Net Income	-171.98%	353.58%	852.32%	-14.49%	254.92%
EPS	-174.78%	349.19%	830.41%	-14.54%	260.02%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ended December 31, 2008
(in thousands $)

	Q1(3/08)A	Q2(6/08)A	Q3(9/08)A	Q4(12/08)A	FY(12/08)A
Net sales	**$ 20,275**	**$ 22,315**	**$ 23,312**	**$ 24,300**	**$ 90,202**
Cost of sales	17,586	19,193	19,518	18,899	75,196
Gross profit	2,689	3,122	3,794	5,401	15,006
Selling, general and administrative expenses	1,385	1,491	1,551	1,833	6,259
Operating income (loss)	1,304	1,631	2,243	3,568	8,747
Interest expense	411	320	310	321	1,361
Other (income) expense	(1)	(5)	(3)	(1)	(10)
Income (loss) before taxes	894	1,316	1,936	3,248	7,396
Income tax expense (benefit)	283	429	513	978	2,205
Net income (loss)	**$ 611**	**$ 887**	**$ 1,423**	**$ 2,270**	**$ 5,191**
Basic EPS	**$ 0.10**	**$ 0.14**	**$ 0.22**	**$ 0.36**	**$ 0.82**
Diluted EPS	**$ 0.09**	**$ 0.14**	**$ 0.22**	**$ 0.34**	**$ 0.79**
Basic Shares Outstanding	6,327	6,329	6,329	6,330	6,329
Diluted Shares Outstanding	6,554	6,527	6,500	6,600	6,542
Margin Analysis					
Gross margin	13.26%	13.99%	16.27%	22.23%	16.64%
Selling, general and administrative	6.83%	6.68%	6.65%	7.54%	6.94%
Operating margin	6.43%	7.31%	9.62%	14.68%	9.70%
Net margin	3.01%	3.97%	6.10%	9.34%	5.75%
Year / Year Growth					
Total Revenues	21.87%	20.52%	21.30%	19.83%	20.84%
Net Income	566.41%	19.38%	25.26%	167.06%	99.81%
EPS	543.64%	16.03%	23.74%	165.52%	97.46%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ending December 31, 2009
(in thousands $)

	Q1(3/09)E	Q2(6/09)E	Q3(9/09)E	Q4(12/09)E	FY(12/09)E
Net sales	**$ 24,500**	**$ 25,500**	**$ 26,500**	**$ 27,500**	**$ 104,000**
Cost of sales	18,925	19,500	20,075	20,625	79,125
Gross profit	5,575	6,000	6,425	6,875	24,875
Selling, general and administrative expenses	1,715	1,785	1,855	1,925	7,280
Operating income (loss)	3,860	4,215	4,570	4,950	17,595
Interest expense	320	320	320	320	1,280
Other (income) expense	-	-	-	-	-
Income (loss) before taxes	3,540	3,895	4,250	4,630	16,315
Income tax expense (benefit)	1,062	1,169	1,275	1,389	4,895
Net income (loss)	**$ 2,478**	**$ 2,726**	**$ 2,975**	**$ 3,241**	**$ 11,420**
Basic EPS	**$ 0.38**	**$ 0.42**	**$ 0.46**	**$ 0.50**	**$ 1.77**
Diluted EPS	**$ 0.38**	**$ 0.41**	**$ 0.45**	**$ 0.49**	**$ 1.73**
Basic Shares Outstanding	6,450	6,450	6,450	6,450	6,450
Diluted Shares Outstanding	6,600	6,600	6,600	6,600	6,600
Margin Analysis					
Gross margin	22.76%	23.53%	24.25%	25.00%	23.92%
Selling, general and administrative	7.00%	7.00%	7.00%	7.00%	7.00%
Operating margin	15.76%	16.53%	17.25%	18.00%	16.92%
Net margin	10.11%	10.69%	11.23%	11.79%	10.98%
Year / Year Growth					
Total Revenues	20.84%	14.27%	13.68%	13.17%	15.30%
Net Income	-305.56%	207.33%	109.07%	42.78%	120.00%
EPS	-302.74%	203.93%	105.90%	42.78%	118.17%

Orchids Paper Products Company

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

	FY2006	FY2007	FY2008
Cash Flows from Operating Activities			
Net income(loss)	$ 732	$ 2,598	$ 5,191
Depreciation and amortization	2,472	3,222	3,156
Provision for doubful accounts	(19)	-	87
Deferred income taxes	483	307	2,145
Stock based compensation	260	402	313
Foreign currency transaction gain (loss)	35	-	-
Unrealized gain (loss) on foreign exchange contracts	(74)	-	-
Changes in assets and liabilities			
Accounts receivable	(890)	(438)	(1,074)
Inventories	41	(495)	(1,379)
Prepaid expenses	152	(75)	(18)
Income taxes receivable	(1,148)	1,218	24
Accounts payable	895	988	(61)
Acrrued liabilities	(332)	655	124
Net Cash Provided by (Used in) Operations	**2,607**	**8,382**	**8,508**
Cash Flows from Investing Activities			
Proceeds from the sale of securities and restricted CD	-	1,500	-
Purchase of property and equipment	(18,133)	(1,818)	(6,926)
Net Cash Provided by (Used in) Investing	**(18,133)**	**(318)**	**(6,926)**
Cash Flows from Financing Activities			
Borrowings on long-term debt	15,000	26,500	-
Retirement of borrowings on long-term debt	-	(25,866)	-
Principal payments on long-term debt	(1,586)	(2,472)	(2,286)
Retirment of subordinated debentures	-	(2,150)	-
Net borrowings (repayments) on revolving credit line	1,767	(4,270)	696
Purchase of common stock by former CEO	-	743	-
Purchase by the Company of common stock from former CEO	-	(405)	-
Proceeds from the exercise of warrants attached to debentures	-	-	16
Deferred debt issuance cost	(30)	(144)	-
Net Cash Provided by (Used in) Financing	**15,151**	**(8,064)**	**(1,574)**
Net Change in Cash	**(375)**	**-**	**8**
Cash - Beginning of Period	**378**	**3**	**3**
Cash - End of Period	**$ 3**	**$ 3**	**$ 11**