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 27, 2014

TIS $29.77 — (NYSE MKT)

	2012A	2013A	2014E	2015E
Revenues (millions)	$100.8	$116.4	$124.3	$136.4
Earnings per share	$1.18	$1.67	$1.76	$2.14

52-Week range	$34.20 – $20.80	Fiscal year ends:	December
Shares outstanding a/o 3/1/14	8.1 million	Revenue per share (TTM)	$14.66
Approximate float	7.5 million	Price/Sales (TTM)	2.0X
Market capitalization	$241 million	Price/Sales (FY2015)E	1.8X
Tangible book value/share	$10.52	Price/Earnings (TTM)	17.8X
Price/tangible book value	2.8X	Price/Earnings (FY2015)E	13.9X
Annual dividend	$1.40	Dividend Yield	4.7%

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 $33.00. Our target implies a total (including dividend) year-ahead return of 16%.

In January 2014, Private Label Buyer magazine reported that sales of private label tissue products, Orchids' principal market, grew as much as 10% in 2013. Driving this growth was continuous improvement in quality and performance.

Orchids plans to invest $30.4M to upgrade its paper making and converting assets. The paper mill project will replace two existing paper machines increasing annual capacity from 57,000 tons to over 70,000. Start-up is expected 1Q15.

Orchids generates higher margins from sales of tissue products versus bulk tissue paper. Orchids should increase tissue product tonnage by 10% in 2014 and 8% in 2015. This will result in minimal parent roll sales.

We project 2014 revenue of $124.3 million and EPS of $1.76 per share. Our revenue projection is largely unchanged but our EPS projection is lower ($2.07 previously) due primarily to the adverse effect the secondary market parent roll purchases will have on margins. We project 2015 revenue of $136.4 million and EPS of $2.14. Our projections are based on growing tissue product sales.

On February 5, 2014, Orchids reported 4Q13 revenue of $30.8 million and EPS of $0.42. We projected 4Q13 revenue of $30.7 million and EPS of $0.47. Excluding expenses related to the appointment of the company's new CEO, 4Q13 EPS would have been $0.48.

Please view our disclosures on pages 14 - 16.

Recommendation and Valuation

Reiterating **Speculative Buy** rating and maintaining **12-month price target of $33.00.** Our target implies a total (including dividend) year-ahead return of 16%.

Orchids' shares traded at its three-year historic average of 20X TTM earnings in 2013 (which reflects significant levels of higher tier converted products and expectations of dividends) and is currently trading at a multiple of 18X TTM earnings. We believe the pull back in the multiple is due to the adverse impact that Orchids' parent roll purchases in the secondary market will have on 2014 margins. However, parent roll purchases are estimated to end in 1Q15 as a new paper machine ramps up production which should help to restore margins. We believe that during the next twelve months, the market will accord the stock a multiple of 17X with the level of sales and earnings we project. Applying a multiple of 17X to our 2014 EPS estimate of $2.14, discounted to a twelve-month value of $1.99, gives us a price target of approximately $33.00 per share.

New Paper Machine and Converting Line Projects

On November 25, 2013, Orchids announced its plans to invest $30.4M to upgrade its paper making and converting assets in Pryor, Oklahoma.

The paper mill project will replace two existing paper machines and start-up 1Q15. The new paper machine will be capable of producing a broader range of paper grades (in value and premium tier products) and will replace two paper machines that produce paper for only value tier products. The project is expected to increase Orchids' paper mill annual capacity from 57,000 tons to over 70,000 tons. The improved energy efficiency of the new machine is expected to significantly lower production costs. The combination of lower production costs and increased capacity is expected to increase annual operating income by approximately $6 million to $8 million once the project is complete.

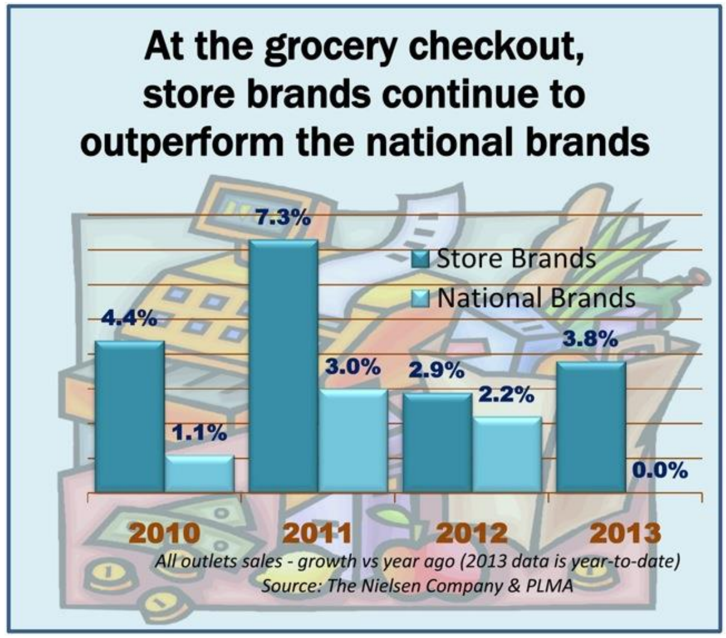
The converting line project is an upgrade to the existing line and will improve manufacturing flexibility and capacity with a lower cost structure. The project is expected to be completed by the end of 2014 and generate an additional annual operating income of $2.8 million to $3.4 million when fully utilized.

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, 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®. 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 Outlook



In October 2013, the Private Label Manufacturers Association (PLMA) reported that shoppers are reaching for private label brands for almost one out of every four products they buy at supermarkets. In 2013, private label brands surpassed $110 billion in US sales and accounted for a 23.3% market share. According to statistics published by The Nielsen Co., private label sales grew an average of 4.6% annually from 2009 to 2013 vs. average growth of 1.6% for national brands. The growth in private label sales is driven by the rising quality of private label products and erosion of brand name loyalty.

The PLMA reported that consumers are developing new purchasing habits. Satisfaction with store brands during weak economic environments breeds familiarity and then loyalty to these products and the stores that sell them.

In January 2014, Euromonitor International reported[1] that products such as toilet tissue and paper towels were relatively easy for retailers to source and distribute while generating good margins. There was very little difference in quality between branded and private label tissue products. Euromonitor International said that retailers have begun to invest more in the marketing of their private labels, focusing on packaging, advertising, and promotions in order to achieve closer parity with branded products and to dispel their image of inferiority.

In January 2014, Private Label Buyer magazine cited data showing that private label toilet tissue was up more than 10% to almost $1.58 billion in 2013 for a 30% market share. Private label facial tissue was up more than 5% with an almost 30% market share and private label paper towels were up slightly capturing a market share of 44%. Driving the growth in private label paper products was continuous improvement in quality and performance.

In an October 2013 sanitary paper product manufacturing industry report, IBISWorld said that large discount retailers such as Walmart (accounted for 12% of Orchids' converted product sales in 2012) 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, the competition from lower-priced imports is expected to mitigate US growth resulting in more moderate industry growth of 2.1% annually in the six years to 2019.

Economic Outlook

In January 2014, the International Monetary Fund (IMF) raised its global economic growth forecast to 3.7% in 2014, up from an earlier (October 2013) growth forecast of 3.6%. Global growth is projected to further increase to 3.9% in 2015. Driving this growth will be a recovery in the advanced economies. The IMF said that global economic activity picked up in the second half of 2013 at a somewhat stronger pace than previously anticipated.

1. Euromonitor International (2014-01-15). "The New Face of Private Label: Global Market Trends to 2018". Executive Summary. Retrieved on March 17, 2014.

Growth in the US was revised upward to 2.8% in 2014 from an earlier (October 2013) growth forecast of 2.6%. The IMF said that growth in 2014 will be driven by domestic demand. However, 2015 US growth projections have been lowered to 3% from an earlier (October 2013) growth forecast of 3.4% due to a tighter fiscal stance as the recent budget agreement implies that most of the sequester cuts will remain in place in 2015 instead of being reversed as previously assumed.

The Federal Reserve's (Fed) latest economic projection for the US economy is in line with the IMF's. In March 2014, the Fed projected the US economy to grow at a slightly slower but steady pace in 2014. The Fed projects US growth of 2.8% to 3% this year, a bit lower than its December 2013 projection of between 2.8% and 3.2%.

In February 2014, the Federal Reserve Bank of the Tenth Federal Reserve District, which includes most of the Oklahoma area, released its survey of manufacturing activity. The survey reported that the region's manufacturing activity grew modestly in February 2014 and producers' expectations for future activity moderated somewhat but remained at solid levels overall.

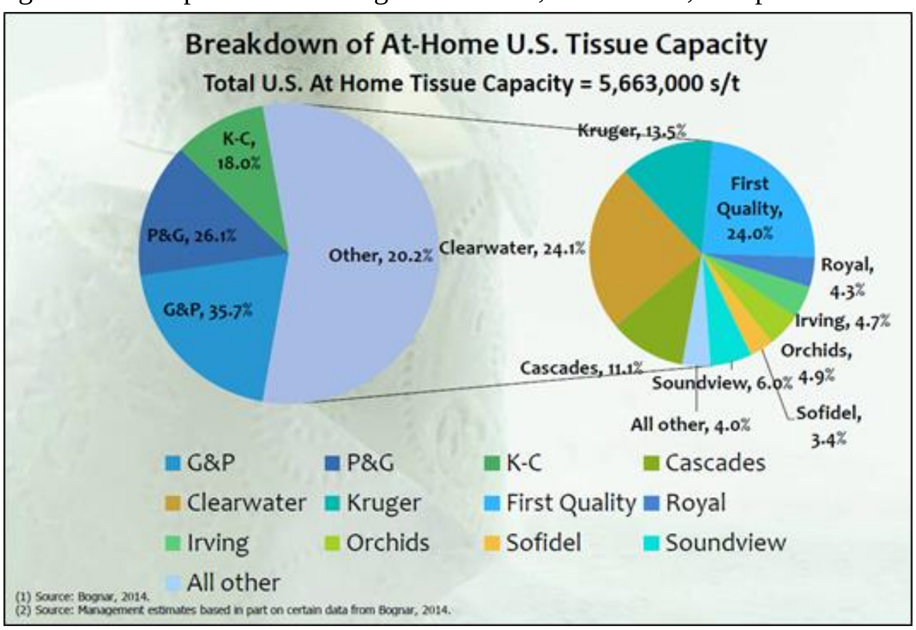
Although tissue products are considered consumer staples and changes in the economy do not typically affect sales of overall tissue products, the recession did help in driving consumption to private label products such as Orchids'.

Market and Competition

In October 2013, IBISWorld estimated the 2013 US sanitary paper product market at $11.5 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $2.4 billion. The overall industry is projected to grow at a compound annual growth rate (CAGR) of 2% over the next six years to $13.1 billion by 2019.

Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $61.1 billion in 2014. IBISWorld projects dollar and variety stores' revenue growth averaging 2.1% annually from 2013 to 2019.

Due to the company's proximity to the dollar and grocery stores in its target market, Orchids' products should save these customers approximately 70% in shipping costs (according to a food broker source in Texas) compared with most competitors' products, a significant competitive advantage. However, since 2010, competitors have moved into Orchids' market areas. 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 and 24% in 2013.



Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of delivered product costs. In Oklahoma and the immediately surrounding area, Clearwater Paper's Oklahoma City, Oklahoma plant, Georgia-Pacific's Muskogee, Oklahoma plant, Cascades' Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant give these competitors a significant presence.

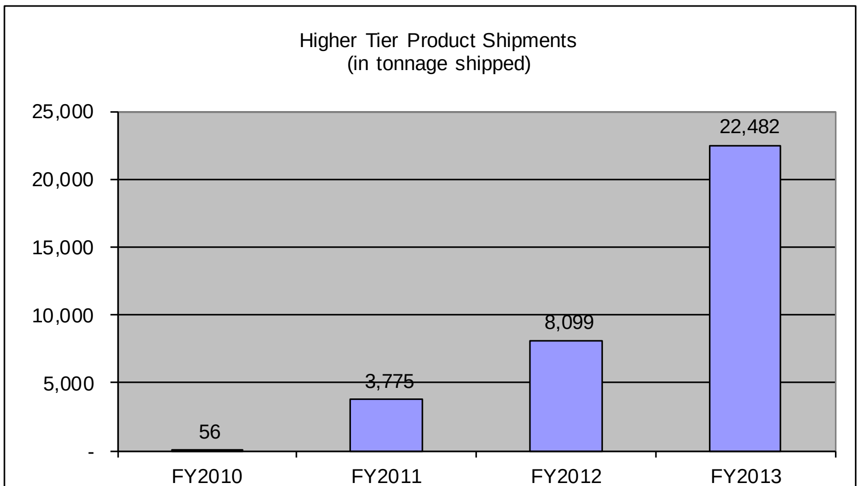
Clearwater Paper and Cascades are the only publicly held direct competitors. Revenue and gross margins for Orchids and its competitors are shown at right. These competitors' lower gross margins versus Orchids' could drive them to expand in Orchids' market, increasing pressure on Orchids' prices and margins.

	Clearwater Paper	Cascades	Orchids Paper
2013 Revenue	$1.9B	$3.8B	$116.4M
2013 Gross Margin	11.6%	14.9%	24.0%
2012 Revenue	$1.9B	$3.6B	$100.8M
2012 Gross Margin	14.2%	13.4%	22.4%

Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In 2010, Orchids' increased its annual converting capacity by approximately four million cases with the installation of a new converting line, bringing its annual converting capacity to 12.5 million cases per year. In 2011, Orchids made changes to its operating procedures and invested in equipment in order to develop higher quality products for the mid-tier market. In 2014, 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 annual capacity from 57,000 tons to over 70,000 tons. The converting line project is expected to be completed by the end of 2014 and the paper machine is expected to begin production in early 2015.

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 partly overcome by the additional converting line and new product initiatives (higher grade products).



Source: Company filings

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

4Q & FY13 Financial Results

<u>*4Q13*</u> - Sales of $30.8 million were up 28% from $24 million in 4Q12. Net income was $3.4 million or $0.42 per share versus net income of $2.2 million or $0.28 per share. Included in net income for 4Q13 was $0.5 million of expenses related to the appointment of the company's new CEO. Excluding these expenses, net income would have been $3.9 million or $0.48 per share. We projected 4Q13 sales of $30.7 million and net income of $3.8 million or $0.47 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in 4Q13 increased 33% to $29 million while parent roll (bulk tissue paper) sales decreased 22% to $1.8 million.

The increase in converted product sales was due to a 31% increase in tonnage shipped and a 2% increase in selling prices. The increase in converted product shipments was primarily due to sales in the mid and premium tier markets. Net sales of bulk tissue paper decreased due to the increased requirements of the converting operations.

Gross margins increased to 23.5% from 22.6% primarily due to a favorable product mix (increased sales of higher margin converted products). Selling, general and administrative (SG&A) expenses increased to $2.6 million from $2 million due to expenses related to transitioning the new CEO and increased commissions. Operating income increased to $4.7 million or 15.1% of sales from $3.4 million or 14.2% of sales. Interest expense decreased slightly to $91,000 from $99,000 due to lower debt levels.

FY13 - Sales of $116.4 million were up 15% from $100.8 million in the comparable period in 2012. Net income was $13.3 million or $1.67 per share versus 2012 net income of $9.3 million or $1.18 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 21% to $109.6 million while parent roll (bulk tissue paper) sales decreased 34% to $6.8 million.

The increase in converted product sales was primarily due to a 20% increase in tonnage. The increase in converted product shipments was primarily due to sales in the mid and premium tier markets. Net sales of bulk tissue paper decreased due to the increased requirements of the converting operations.

Gross margins increased to 24% from 22.4% primarily due to a favorable product mix. Selling, general and administrative (SG&A) expenses increased to $9.5 million from $8.5 million primarily due to expenses related to appointing the new CEO and increased commissions. Operating income increased to $18.4 million or 15.8% of sales from $14.1 million or 14% of sales. Interest expense decreased slightly to $371,000 from $407,000 due to lower debt levels.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2015. As of December 31, 2013, Orchids had a strong balance sheet with cash of $7.2 million and a debt/equity ratio of 0.2 versus 0.5 for the paper products industry.

Cash earnings of $21 million and a $212,000 increase in working capital resulted in $20.8 million cash from operations in FY13. Working capital increased due mainly to increases in accounts receivable and inventories, offset in part by an increase in accrued liabilities. Capital expenditures of $12.2 million, $10.7 million in dividend payments, and $3.3 million proceeds from the exercise of stock options increased cash by $1.5 million to $7.2 million as of December 31, 2013.

A $36 million credit agreement with JP Morgan Chase provides for an $18 million revolving credit line (due April 2014), a $10.8 million real estate term loan with a ten-year term (due April 2021) but amortized as if it had a 25-year life, and a $7.2 million machinery and equipment term loan with a seven-year term (due April 2018). The amount outstanding under this credit facility was $15.1 million as of December 31, 2013.

All loans have a floating interest rate of either the prime rate plus 25 to minus 50 basis points, or LIBOR plus 175 to 265 basis points (based on the ratio of funded debt to EBITDA), at the company's discretion. The credit agreement contains covenants that require Orchids to maintain a specific funded debt-to-EBITDA ratio, fixed charge coverage ratio, and a tangible net worth. As of December 31, 2013, the company exceeded the requirements of the unfunded capital expenditure limit and fixed charge coverage ratio but received a waiver from JP Morgan Chase for compliance with those covenants.

Projections

Converted product shipments grew over 20% in 2013. This was up from 12% growth in 2012 and 8% growth in 2011. We believe this growth was primarily due to the market's acceptance of higher quality products that were introduced during that time frame. We do not believe the company's recent converted product growth of over 20% will be sustainable given the high level of competition in its target area. We project approximately 5,400 additional tons of converted products being shipped in 2014 for growth of 10%. We project converted product growth will slow to approximately 8% in 2015 as the new paper machine goes into startup mode in 1Q15.

There are no sales contracts guaranteeing these orders. However, customer order streams are fairly constant and typically last several years. We project 2014 and 2015 selling prices to increase 2% as a growing economy drives increased demand.

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	58,000	$ 2,126	$ 123,308
Parent Roll	1,000	$ 1,026	$ 1,026
Total	59,000	$ 2,107	$ 124,334
2015	**Tons Shipped**	**Selling Price/Ton**	**Revenue ($,000)**
Converted	62,400	$ 2,169	$ 135,346
Parent Roll	1,000	$ 1,047	$ 1,047
Total	63,400	$ 2,151	$ 136,393

Source: Company filings and Taglich Brothers estimates

Gross margins should improve to 25% in 2014 and 26.3% in 2015 from 22.4% in 2013 due to increases in higher margin converted product sales. Paper costs are projected to increase to $789/ton in 2014 and $799/ton in 2015 as the company purchases parent rolls in the secondary market in 4Q14 and 1Q15 in an effort to meet its growing converting requirements and to keep a pipeline open for future requirements. We project other variable costs in 2014 and 2015 to increase primarily due to inflationary pressures. Fixed costs are projected to remain near current aggregate levels on a per ton basis. The table at right shows our estimated costs per ton (variable and fixed) over the past four years and our estimates for 2013 and 2014.

COGS (in thousands $) Model

	2010A	2011A	2012A	2013A	2014E	2015E
Variable cost (paper)	$ 43,947	$ 46,337	$ 42,566	$ 43,949	$ 46,551	$ 50,657
Est. variable cost (other)	$ 20,334	$ 21,373	$ 21,110	$ 27,699	$ 28,379	$ 30,876
Total est. variable costs	$ 64,281	$ 67,710	$ 63,676	$ 71,648	$ 74,930	$ 81,532
Est. fixed cost (overhead)	$ 6,778	$ 7,124	$ 7,036	$ 9,233	$ 9,444	$ 9,780
Fixed cost (depreciation)	$ 5,693	$ 7,052	$ 7,541	$ 7,613	$ 8,907	$ 9,160
Total est. fixed costs	$ 12,471	$ 14,176	$ 14,577	$ 16,846	$ 18,351	$ 18,940
COGS	$ 76,752	$ 81,886	$ 78,253	$ 88,494	$ 93,281	$ 100,472
Tons shipped	56,663	55,514	53,995	59,318	59,000	63,400
Variable (paper) costs/ton	$ 776	$ 835	$ 788	$ 741	$ 789	$ 799
Est. variable (other) cost/ton	$ 359	$ 385	$ 391	$ 467	$ 481	$ 487
Total variable costs/ton	$ 1,134	$ 1,220	$ 1,179	$ 1,208	$ 1,270	$ 1,286
Fixed costs/ton	$ 220	$ 255	$ 270	$ 284	$ 311	$ 299
Total COGS/ton	$ 1,355	$ 1,475	$ 1,449	$ 1,492	$ 1,581	$ 1,585
Gross profit	$ 15,752	$ 15,957	$ 22,566	$ 27,880	$ 31,019	$ 35,928
Gross margin	17.0%	16.3%	22.4%	24.0%	25.0%	26.3%

Source: Company filings and Taglich Brothers estimates

We project 2014 revenue of $124.3 million and net income of $14.3 million or $1.76 per share. Our revenue projection is largely unchanged but our net income projection is lower ($16.8 million or $2.07 per share previously) due primarily to the adverse effect the secondary market parent roll purchases will have on margins. Our projections are based on a 10% increase in converted product tonnage to be shipped in 2014 (as we do not believe the 20% rate in 2013 sustainable) and minimal parent roll sales.

We project SG&A expenses of $9.5 million in 2014 (of which approximately 1.6% or $2 million of sales are commission-related). Our SG&A projection is relatively flat with 2013 due to the absence of the $0.5 million of expenses related to the CEO transition in 2013. Excluding the CEO transition expenses, SG&A expenses are higher by $0.5 million due primarily to higher salaries and commissions associated with increased converted product sales. Operating margins are projected to increase to 17.3% from 15.8% due to the gross profit gains discussed earlier. The tax rate is estimated at 32%.

For 2014 we project cash earnings of $23.6 million and a $468,000 increase in working capital will result in cash from operations of $23.1 million. The increase in working capital is primarily due to increases in accounts receivables and inventories. Cash from operations will cover $23 million of capital expenditures (from investments in a new paper machine and converting line upgrade). A net $3.8 million increase in debt, $3.3 million from option exercises, and $11.3 million in dividends, should decrease cash by $2.6 million to $4.6 million at December 31, 2014.

We project 2015 revenue of $136.4 million and net income of $17.4 million or $2.14 per share. Our projections are based on an 8% increase in converted product tonnage shipped (as growth is hampered by the new paper machine startup in 1Q15) and minimal parent roll sales.

We project SG&A expenses of $10 million in 2015 (of which approximately 1.6% or $2.2 million of sales are commission-related), higher by $0.5 million due primarily to higher salaries and commissions associated with increased converted product sales. Operating margins are projected to increase to 19% from 17.3% due to the gross profit gains discussed earlier. The tax rate is estimated at 32%.

For 2015 we project cash earnings of $26.9 million and a $0.9 million increase in working capital will result in cash from operations of $26 million. The increase in working capital is primarily due to increases in accounts receivables and inventories. Cash from operations will cover $12 million of capital expenditures, a $5 million pay down of debt, and $11.3 million in dividends, increasing cash by $2.4 million to $7 million at December 31, 2015.

Risks

Customer concentration

Four customers (Dollar General, Family Dollar, HEB and Wal-Mart) accounted for approximately 81% of converted product sales in 2013. 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.

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 7.5 million shares in the float with an average daily volume of approximately 67,000 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.

Consolidated Balance Sheets
(in thousands $)

	2011A	2012A	2013A	2014E	2015E
Cash	4,297	5,734	7,205	4,596	7,078
Accounts receivable	6,939	5,406	6,585	7,033	7,718
Inventories	7,811	10,275	10,921	11,512	12,399
Short term investments	2,019	5,027	5,035	5,035	5,033
Income taxes receivable	285	607	-	-	.
Prepaid expenses	530	637	863	863	863
Other	338	44	146	146	146
Deferred income taxes	410	393	552	552	552
Total current assets	22,629	28,123	31,307	29,738	33,789
Property, plant and equipment	92,285	91,188	95,745	109,730	112,570
Deferred debt issuance costs	54	47	40	40	40
Total Assets	114,968	119,358	127,092	139,508	146,399
Accounts payable	3,520	3,685	3,685	3,884	4,184
Accrued liabilities	2,615	2,832	4,030	4,304	4,723
Current portion of long-term debt	1,152	1,152	1,152	1,152	1,152
Total current liabilities	7,287	7,669	8,867	9,341	10,059
Long-term debt	16,231	15,079	13,927	17,775	12,775
Deferred income taxes	18,801	19,432	19,449	19,449	19,449
Total liabilities	42,319	42,180	42,243	46,565	42,283
Total stockholders' equity	72,649	77,178	84,849	92,943	104,116
Total liabilities & stockholders' equity	114,968	119,358	127,092	139,508	146,399

Source: Company filings and Taglich Brothers' estimates

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

	2011A	2012A	2013A	2014E	2015E
Net sales	97,843	100,819	116,374	124,300	136,400
Cost of sales	81,886	78,253	88,494	93,281	100,472
Gross profit	15,957	22,566	27,880	31,019	35,928
SG&A expenses	6,810	8,456	9,471	9,500	10,000
Operating income (loss)	9,147	14,110	18,409	21,519	25,928
Interest expense	647	407	371	480	360
Other (income) expense	(42)	302	(173)	(40)	(40)
Income (loss) before taxes	8,542	13,401	18,211	21,079	25,608
Income tax expense (benefit)	2,344	4,144	4,892	6,745	8,195
Net income (loss)	6,198	9,257	13,319	14,334	17,413
EPS	0.80	1.18	1.67	1.76	2.14
Shares Outstanding	7,722	7,832	7,937	8,150	8,150
Margin Analysis					
Gross margin	16.3%	22.4%	24.0%	25.0%	26.3%
SG&A expenses	7.0%	8.4%	8.1%	7.6%	7.3%
Operating margin	9.3%	14.0%	15.8%	17.3%	19.0%
Net margin	6.3%	9.2%	11.4%	11.5%	12.8%
Tax rate	27.4%	30.9%	26.9%	32.0%	32.0%
Year / Year Growth					
Total Revenues	5.8%	3.0%	15.4%	6.8%	9.7%
Net Income	4.8%	49.4%	43.9%	7.6%	21.5%
EPS	5.3%	47.3%	41.3%	5.3%	21.5%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2013, 2014, and 2015
(in thousands $)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14E	6/14E	9/14E	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	26,609	29,232	29,760	30,773	116,374	29,900	30,700	32,000	31,700	124,300	32,800	33,700	35,100	34,800	136,400
Cost of sales	20,082	22,236	22,620	23,556	88,494	22,581	22,990	23,773	23,937	93,281	24,314	24,817	25,721	25,620	100,472
Gross profit	6,527	6,996	7,140	7,217	27,880	7,319	7,710	8,227	7,763	31,019	8,486	8,883	9,379	9,180	35,928
SG&A expenses	2,273	2,517	2,122	2,559	9,471	2,275	2,350	2,450	2,425	9,500	2,400	2,475	2,575	2,550	10,000
Operating income (loss)	4,254	4,479	5,018	4,658	18,409	5,044	5,360	5,777	5,338	21,519	6,086	6,408	6,804	6,630	25,928
Interest expense	93	95	92	91	371	120	120	120	120	480	90	90	90	90	360
Other (income) expense	(5)	(7)	(9)	(152)	(173)	(10)	(10)	(10)	(10)	(40)	(10)	(10)	(10)	(10)	(40)
Income (loss) before taxes	4,166	4,391	4,935	4,719	18,211	4,934	5,250	5,667	5,228	21,079	6,006	6,328	6,724	6,550	25,608
Income tax expense (benefit)	1,073	1,248	1,212	1,359	4,892	1,579	1,680	1,813	1,673	6,745	1,922	2,025	2,152	2,096	8,195
Net income (loss)	3,093	3,143	3,723	3,360	13,319	3,355	3,570	3,854	3,555	14,334	4,084	4,303	4,572	4,454	17,413
EPS	0.39	0.39	0.47	0.42	1.67	0.41	0.44	0.47	0.44	1.76	0.50	0.53	0.56	0.55	2.14
Shares Outstanding	7,895	7,984	8,074	8,121	7,937	8,150	8,150	8,150	8,150	8,150	8,150	8,150	8,150	8,150	8,150
Margin Analysis															
Gross margin	24.5%	23.9%	24.0%	23.5%	24.0%	24.5%	25.1%	25.7%	24.5%	25.0%	25.9%	26.4%	26.7%	26.4%	26.3%
SG&A expenses	8.5%	8.6%	7.1%	8.3%	8.1%	7.6%	7.7%	7.7%	7.6%	7.6%	7.3%	7.3%	7.3%	7.3%	7.3%
Operating margin	16.0%	15.3%	16.9%	15.1%	15.8%	16.9%	17.5%	18.1%	16.8%	17.3%	18.6%	19.0%	19.4%	19.1%	19.0%
Net margin	11.6%	10.8%	12.5%	10.9%	11.4%	11.2%	11.6%	12.0%	11.2%	11.5%	12.5%	12.8%	13.0%	12.8%	12.8%
Tax rate	25.8%	28.4%	24.6%	28.8%	26.9%	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	3.4%	15.6%	15.4%	28.0%	15.4%	12.4%	5.0%	7.5%	3.0%	6.8%	9.7%	9.8%	9.7%	9.8%	9.7%
Net Income	22.6%	40.5%	60.1%	54.6%	43.9%	8.5%	13.6%	3.5%	5.8%	7.6%	21.7%	20.5%	18.7%	25.3%	21.5%
EPS	22.0%	38.0%	62.1%	52.7%	41.3%	5.1%	11.3%	0.6%	3.9%	5.3%	21.7%	20.5%	18.7%	25.3%	21.5%

Source: Company filings and Taglich Brothers' estimates

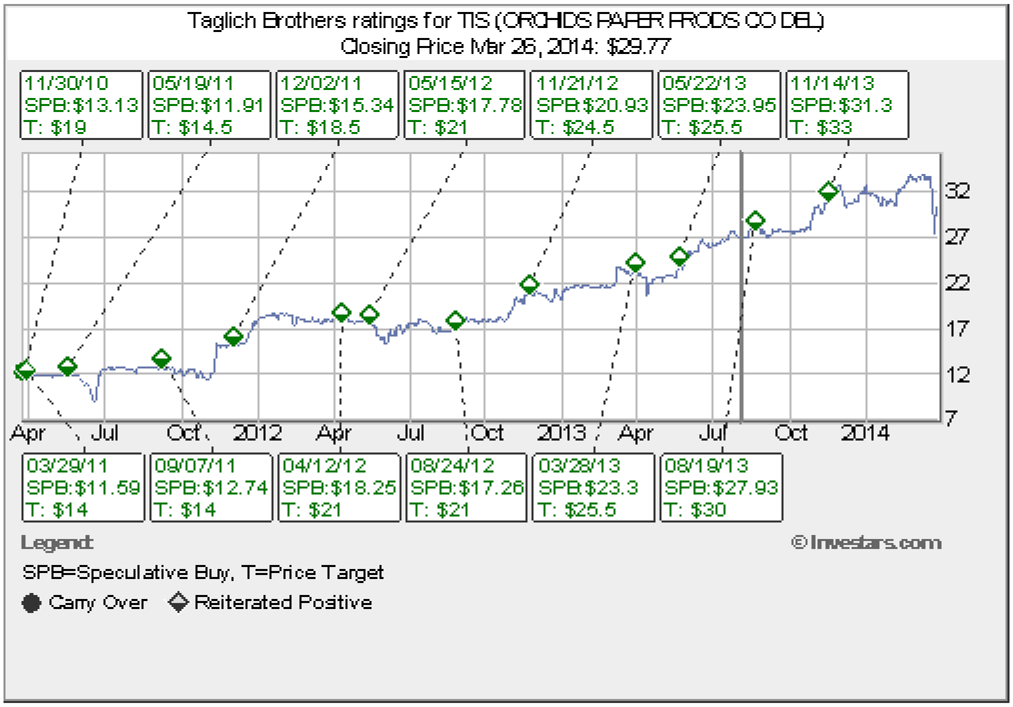
Orchids Paper Products Company

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

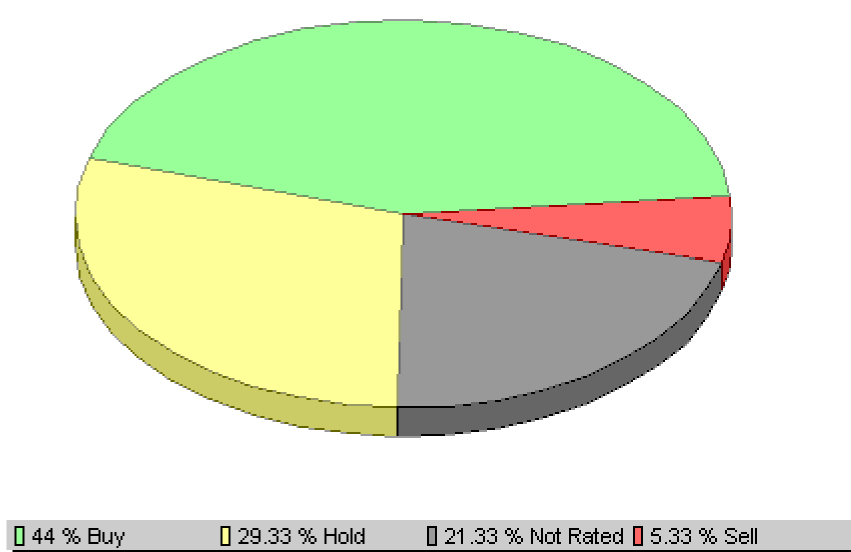
	2011A	2012A	2013A	2014E	2015E
Net income(loss)	6,198	9,257	13,319	14,334	17,413
Depreciation and amortization	7,132	7,548	7,621	8,907	9,160
Provision for doubful accounts	(30)	(20)	10	10	10
Deferred income taxes	2,359	648	(142)	-	-
Stock based compensation	290	346	346	346	346
Loss on disposal of property, plant and equipment	-	336	(146)	-	-
Changes in assets and liabilities					
Accounts receivable	(754)	1,553	(1,189)	(448)	(685)
Inventories	(216)	(2,464)	(646)	(591)	(887)
Prepaid expenses	8	(107)	(226)	-	-
Income taxes receivable	2,390	(322)	607	98	(8)
Other current assets	(338)	294	44	-	-
Accounts payable	(1,730)	165	-	199	299
Acrrued liabilities	346	217	1,198	274	419
Net Cash Provided by (Used in) Operations	15,655	17,451	20,796	23,129	26,068
Proceeds from the sale of investment securities	7,500	-	(8)	-	-
Purchase of investment securities	-	(3,008)	-	-	-
Purchase of property and equipment	(5,531)	(6,780)	(12,171)	(23,000)	(12,000)
Net Cash Provided by (Used in) Investing	1,969	(9,788)	(12,179)	(23,000)	(12,000)
Borrowings on long-term debt	18,021	-	-	5,000	-
Principal payments on long-term debt	(2,007)	(1,152)	(1,152)	(1,152)	(5,000)
Repayment of long-term debt at maturity	(5,878)	-	-	-	-
Repayment of long-term debt prior to maturity	(17,439)	-	-	-	-
Net borrowings (repayments) on revolving credit line	(2,672)	-	-	-	-
Proceeds from the exercise of stock options	303	974	3,305	3,305	3,305
Excess tax benefit of stock options exercised	15	395	1,409	1,409	1,409
Deferred debt issuance cost	(59)	-	-	-	-
Dividends paid	(3,753)	(6,443)	(10,708)	(11,300)	(11,300)
Net Cash Provided by (Used in) Financing	(13,469)	(6,226)	(7,146)	(2,738)	(11,586)
Net Change in Cash	4,155	1,437	1,471	(2,609)	2,482
Cash - Beginning of Period	142	4,297	5,734	7,205	4,596
Cash - End of Period	4,297	5,734	7,205	4,596	7,078
Cash Flow from Operations	15,655	17,451	20,796	23,129	26,068
Capital Expenditures	(5,531)	(6,780)	(12,171)	(23,000)	(12,000)
Free Cash Flow	10,124	10,671	8,625	129	14,068

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	8
Hold	1	13
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 180,042 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 305,294 shares of TIS common stock (includes 135,413 shares of restricted stock). Richard Oh, Managing Director of Taglich Brothers, Inc., owns 15,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 72,900 shares of TIS common stock (includes 33,477 shares of restricted stock). 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.