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 29, 2011

TIS $11.59 — (NYSE AMEX)

	2009A	2010A	2011E	2012E
Revenues (millions)	$96.0	$92.5	$91.2	$94.2
Earnings per share	$1.89	$0.76	$0.69	$0.90

52-Week range	$11.03 – $18.45	Fiscal year ends:	December
Shares outstanding as of 3/4/11	7.5 million	Revenue per share (TTM)	$11.93
Approximate float	5.6 million	Price/Sales (TTM)	1.0X
Market capitalization	$87 million	Price/Sales (FY2012)E	1.0X
Tangible book value/share	$9.30	Price/Earnings (TTM)	15.3X
Price/tangible book value	1.2X	Price/Earnings (FY2012)E	12.9X
Annual dividend	0.40	Dividend Yield	3.5%

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:

We are reiterating our Speculative Buy rating for Orchids Paper Products (NYSE AMEX: TIS) but lowering our twelve-month price target to $14.00 per share (from $19.00) based on our 2012 EPS forecast and P/E outlook.

Industry forecasts are expecting private label products to capture market share. If industry expectations come to fruition, this should bode well for Orchids' sales as its products are primarily sold under its customers' private labels.

The company recently secured new converted product business despite ongoing competitive pressures. With the company's cost competitive product and a growing economy, we see new orders continuing into 2012.

We project 2011 revenue of $91.2 million and EPS of $0.69 per diluted share. We previously projected 2011 revenue of $102.5 million and EPS of $1.27 per diluted share. The decrease in our estimates is based on product placement delays and a highly competitive market.

We project 2012 revenue of $94.2 million and EPS of $0.90 per diluted share. Our 2012 estimates are based on higher margin converted product sales growth.

Orchids reported Q4/10 sales decreased 6% to $22.3 million. Q4/10 EPS was $0.12 versus $0.40 in Q4/09. We projected Q4/10 sales of $24.5 million and EPS of $0.18. Orchids reported 2010 sales decreased 4% to $92.5 million. 2010 EPS was $0.76 versus $1.89 in 2009.

Please view our disclosures on pages 14 - 16.

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating for Orchids Paper Products.

The company's trailing P/E multiple has varied widely since 2005. We believe investors will accord TIS a P/E valuation of 16X which applied to our earnings per share estimate of $0.90 for 2012 and discounting this to a twelve-month value using a discount factor of 6% gives us a **price target of approximately $14.00 per share**. We derived our discount factor using Orchids' beta of 0.62.

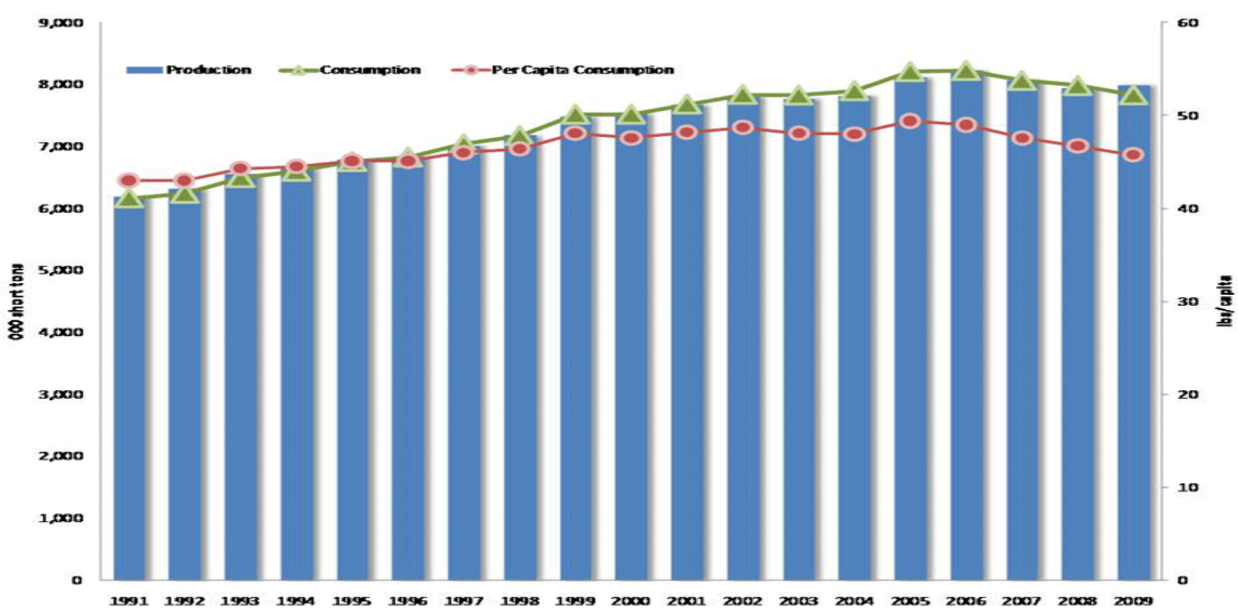
Business

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 targets the discount retail market, primarily dollar store retailers, due to their consistent order patterns, limited number of stock keeping units (SKUs) offered and the growth in this channel of the retail market. While Orchids has customers located throughout the United States, 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. 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.

According to the global consulting and engineering firm Poyry Management Consulting, the tissue paper industry in North America has historically outperformed other paper grades, achieving an average long-term growth rate of about 2%/year between 1990 and 2009, but with a maturing rate of 1.6% for 2001-2009. Tissue paper consumption has been impacted by economic cycles, with stagnant growth in 2002-2003 and most recently in 2007-2009. The long-term outlook for tissue demand is steady, supported by underlying growth in fundamental drivers such as population, household formation, and GDP. Poyry expects North American tissue demand to rebound, growing between 0.7% and 1.8% annually over the next five years.

North American Tissue Industry



Source: Naylornetwork.com

In 2010, Poyry Management Consulting said that dominant branded tissue products were facing increased competition from private label products. Although we do not have the actual numbers, Poyry said that in 2009, private label saw one of its biggest share gains in toilet tissue. Large retailers including Wal-Mart have made coupons and free samples available to increase the sales of branded tissue paper products, but Poyry expects that private labels will continue to capture market share, as not all consumers will switch back to branded products as the economy recovers. This is especially true because private labels are improving product quality. If Poyry's expectations for private labels to gain market share come to fruition, this should bode well for Orchids' sales as its products are primarily sold under its customer's private labels.

Outlook

Orchids' new warehouse and expanded converting line were completed and started operating at the end of June 2010. The new converting line, which has a practical capacity of four million cases per year, is capable of producing both bathroom tissue and towel products. It is also capable of various packaging options and enhanced graphics and embossing, product features that will facilitate penetration of the grocery store market.

The new converting line's capacity of four million cases per year equates to approximately 26,000 additional tons of converted product. Orchid's total converted capacity with the new line should be approximately 66,000 tons annually. This means that at full capacity, the company would have to purchase approximately 10,000 parent rolls in the outside market to augment its current 56,000 ton parent roll capacity. The additional converting capacity will support a roughly 60% increase in annual production over what has historically been produced (approximately 40,000 tons annually).

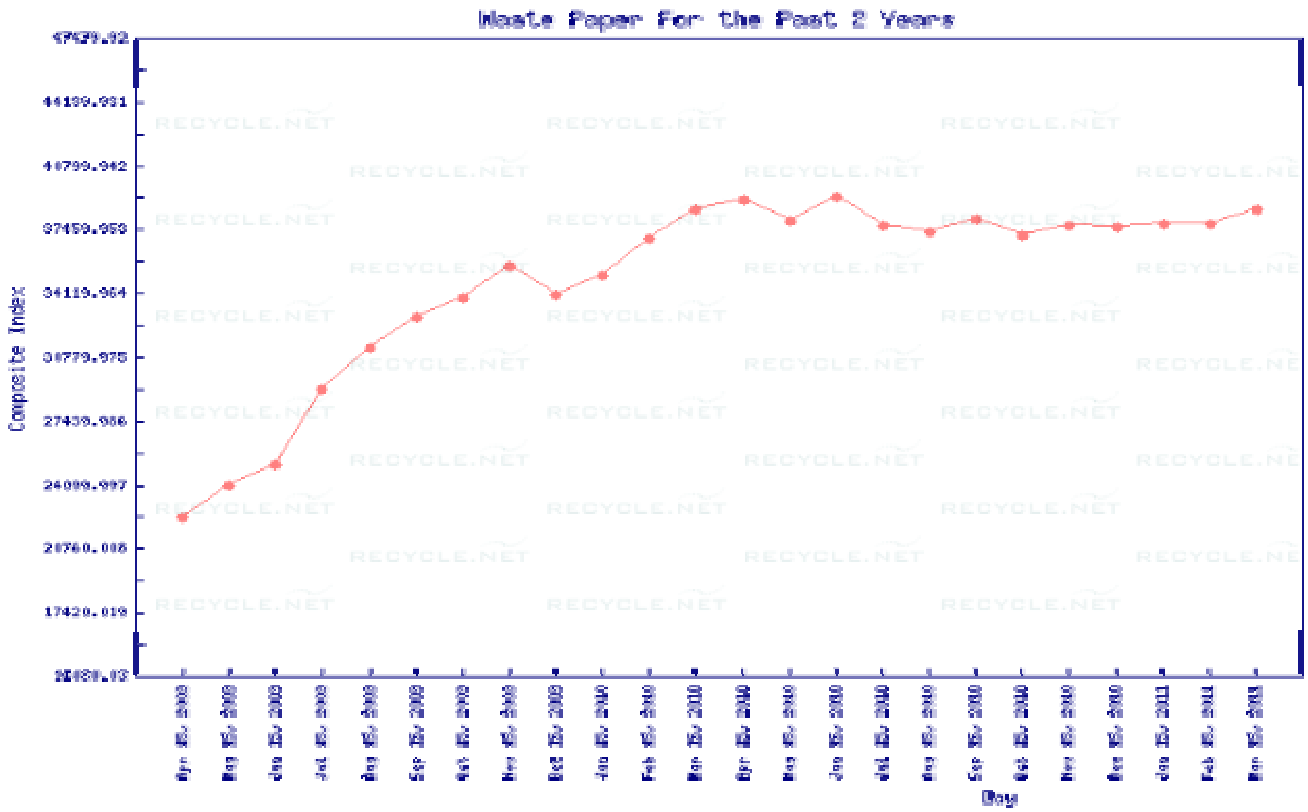
Higher quality product should improve penetration of the dollar store sector. However, this is not likely to impact sales until the second quarter of 2011 given the time required to clear existing product from shelves. Lower tier products are not expected to displace higher tier products. We believe that Orchids offers a better quality lower tier product than direct competitors so we do not anticipate any significant decreases in Orchids' existing lower tier business. We do not have any comparisons yet of Orchids' higher tier products with that of competitors.

Due to the company's proximity to the dollar and grocery stores in its target market, Orchids' products should save these stores approximately 70% in shipping costs compared with most competitors' products, a significant competitive advantage.

Despite Orchids' current cost competitive advantage, competitors have moved into in Orchids' operating region. In 2009 Pacific Paper added a converting plant in Memphis, Tennessee and Clearwater Paper (NYSE: CLW) opened a converting plant in Oklahoma City, Oklahoma in 2010. Both plants are in Orchids' focused 500-mile sales area. This increased competition in the company's focused region has reduced some of its competitive cost advantages and lowered margins.

Judging by a rough estimate of the size of Orchids' primary market (over 200,000 tons of converted products consumed annually based on population), we believe Orchids has the potential to eventually sell its full 60% increase in capacity. However, based on the current competitive environment, we project only modest increases in converted sales over the next two years.

As noted in the fourth quarter financial results, significant increases in waste paper prices and aggressive pricing of competitors' branded products have compressed Orchids' margins. The following chart shows how waste paper prices have remained relatively high over the past year. We believe a gradually improving economy will keep demand for waste paper high resulting in waste paper prices remaining near current high levels.



Source: Paper Fiber Network

We believe the current competitive situation Orchids is facing will impact prices throughout our forecast horizon as both Orchids and Clearwater Paper compete for shelf space.

Market and Competition

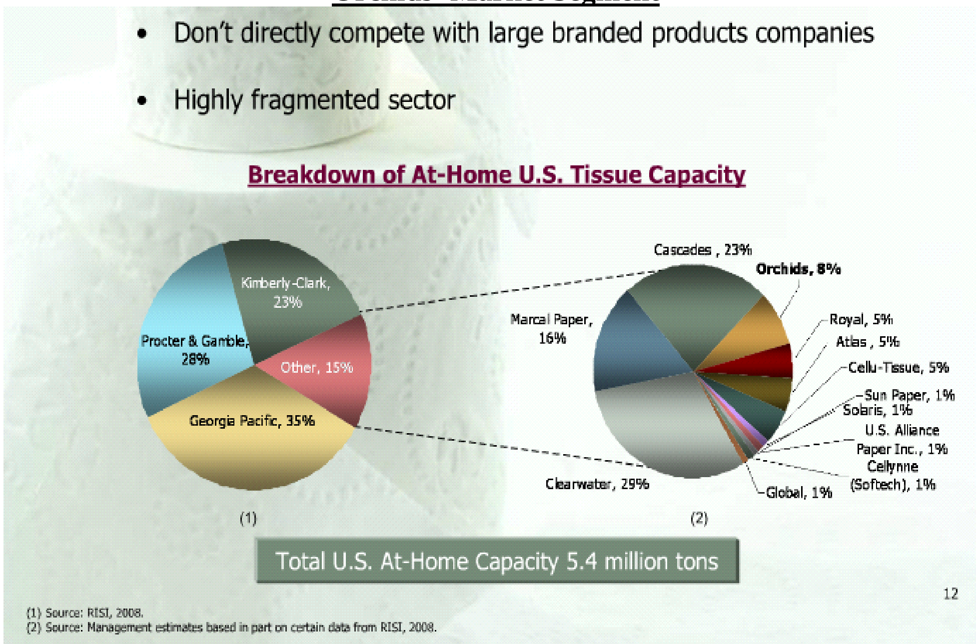
Industry research firm RISI breaks down the North American tissue market as follows: toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other (1%).

Based on the IBISWorlds's projected growth of 3.8% in 2011 for the industry, we project the US tissue market will grow to $10.4 billion in 2011 from $10.0 billion in 2010. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 0.6% from 2011 to 2015.

Dollar and variety stores, Orchids' primary target markets, realized sales of $53.3 billion in 2010. IBISWorld projects dollar and variety stores' growth averaging 3.1% annually from 2011 to 2016.

Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of end product costs. Although it is economically feasible to ship within a 900-mile radius of Orchids' production site, the company is focused on a 500-mile radius. In Oklahoma and the immediately surrounding area, Georgia-Pacific's Muskogee, Oklahoma plant, Cascades' (OTC PK: CADNF) Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant are the only competitors' plants in this region. Clearwater Paper (NYSE: CLW) opened a converting facility in Oklahoma City, Oklahoma and started shipping product in 2010.

Orchids' Market Segment



Source: Orchids Paper Products

4th Quarter and Full Year Financial Results

Q4/10 sales of $22.3 million were down 6% from $23.6 million in Q4/09. Net income was $0.9 million or $0.12 per diluted share versus net income of $3.2 million or $0.40 per diluted share.

We estimated Q4/10 sales of $24.5 million and net income of $1.4 million or $0.18 per diluted share. The EPS shortfall was due largely to lower margins than anticipated.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased to $16.6 million from $20.9 million while parent roll (bulk tissue paper) sales increased to $5.7 million from $2.7 million. Total tons shipped increased to 14,150 from 13,874, while paper costs increased to approximately $12.0 million from approximately $10.7 million. The overall net selling price per ton decreased to $1,873 from $1,704.

The decrease in converted product sales was due to a 23% decline in tonnage shipped offset in part by a 3% increase in net selling prices. Converting product shipments were negatively affected by continued aggressive pricing by branded producers. Net sales of parent rolls were positively affected by a 76% increase in parent roll tonnage shipped and a 17% increase in the net selling prices. Parent roll shipments were aided by excess paper making capacity due to lower shipments of converted products.

Gross margins decreased to 12.5% from 26.8% due to higher raw material costs and a tilt in product mix toward lower margin parent rolls.

Selling, general and administrative (SG&A) expenses decreased to $1.4 million from $1.7 million due to lower incentive bonuses and sales commissions. Interest expense increased to $259,000 from $224,000.

Pretax income decreased to $1.1 million from $4.5 million due mainly to the decrease in gross margins.

For the year ended December 31, 2010, sales decreased 4% to $92.5 million. Net income was $5.9 million or $0.76 per diluted share versus net income of $13.6 million or $1.89 per diluted share.

Converted product sales decreased to $74.1 million from $86.6 million while parent roll sales increased to $18.4 million from $9.3 million. Total tons shipped increased to 56,663 from 52,355, while paper costs increased to approximately $43.9 million from approximately $36.5 million. The overall net selling price per ton decreased to $1,633 from $1,833.

The decrease in converted product sales resulted from a 12% decline in tonnage shipped and a 3% decrease in net selling prices. Converting product shipments were negatively affected by continued aggressive pricing by branded producers. The reduction in the net selling price per ton was primarily due to a change in product mix. Net sales of parent rolls were positively affected by an 81% increase in tonnage shipped and a 9% increase in net selling prices.

Gross margins decreased to 17.0% from 29.2%. The decrease in gross margins was due to higher raw material costs, lower converted product shipments due to increased competition, a higher percentage of parent roll sales, and higher depreciation expense.

Selling, general and administrative (SG&A) expenses decreased to $6.6 million from $7.3 million due to lower incentive bonuses and lower converted product sales commissions. Operating margins decreased to 9.9% from 21.6% due mainly to the decrease in gross margins. Interest expense increased to $0.9 million from $0.7 million due to higher interest rates and higher debt levels.

Pretax income decreased to $8.3 million from $20.0 million due mainly to the decrease in gross margins.

Liquidity

Orchids should have sufficient resources to meet its financial obligations in the coming year. Although Orchids' cash balance was only $142,000 as of December 31, 2010, short term investments totaled $9.5 million. Orchids has spent approximately $27 million during the year on capital expenditures, however, capital expenditures are projected to decrease substantially going forward as the bulk of the expenditures were for the recently completed new converting line and warehouse. Orchids has a debt/equity ratio of 0.4. This compares to the paper products industry's debt/equity ratio of 0.9. As the company continues to pay down debt, this ratio should improve.

Cash earnings of $15.7 million and a $4.0 million increase in taxes receivable offset by a $1.2 million increase in accounts payable resulted in $12.6 million cash from operations in 2010.

Capital equipment projects totaling $26.8 million and $9.0 million proceeds from the sale of investment securities resulted in $17.8 million cash used in investing activities.

Borrowings of $7.9 million and principal payments on long-term debt of $3.8 million resulted in $4.1 million cash from financing activities. Cash from operations of $12.6 million, $17.8 million cash used in investing activities, and $4.1 million cash provided by financing activities reduced cash by $1.1 million to $142,000 as of December 31, 2010.

Orchids has the following financing facilities available: a $8.0 million revolving credit facility (due April 2011); ($2.7 million outstanding at December 31, 2010); a $10.0 million term loan A with a ten-year term (due April 2017), no principal repayments for the first 24 months and then amortized as if it had an 18-year life ($9.4 million outstanding at December 31, 2010); a $16.5 million term loan B with a four year-term (due April 2011) and is being amortized as if it had a six-year life ($6.9 million outstanding at December 31, 2010); a $4.0 million capital expenditures facility with a four-year term (due November 2012) that will be amortized as if it had a five-year life ($3.2 million outstanding at December 31, 2010); and a $6.72 million construction loan with a seven-year term (due October 2016), interest only payments through December 31, 2010, and then amortized as if it had a 15-year life ($5.2 million outstanding at December 31, 2010).

All loans have an interest rate of LIBOR plus 200 to 450 basis points (based on the ratio of funded debt to EBITDA less income tax paid) with a floor of 3.5%.

Projections

Our revenue and gross margin projections through 2012 are as follows. 2010 revenue, total COGS, total gross profit, total tons shipped, and total selling price/ton are actual values. The remaining are Taglich Brothers estimates.

Approximate tons shipped, selling prices/ton, revenue, COGS and margins (est)

2010

	Tons Shipped	Selling Price/Ton	Revenue	COGS	COGS/Ton	Gross Profit	GM
Converted	35,700	$ 2,075	$ 74,077,500	$ 59,983,906	$ 1,680	$ 14,093,594	19.0%
Parent Roll	20,963	$ 879	$ 18,426,477	$ 16,768,094	$ 800	$ 1,658,383	9.0%
Total	56,663	$ 1,633	$ 92,503,977	$ 76,752,000	$ 1,355	$ 15,751,977	17.0%

2011

	Tons Shipped	Selling Price/Ton	Revenue	COGS	COGS/Ton	Gross Profit	GM
Converted	38,375	$ 1,975	$ 75,790,625	$ 63,318,750	$ 1,650	$ 12,471,875	16.5%
Parent Roll	17,625	$ 879	$ 15,492,375	$ 14,100,000	$ 800	$ 1,392,375	9.0%
Total	56,000	$ 1,630	$ 91,283,000	$ 77,418,750	$ 1,382	$ 13,864,250	15.2%

2012

	Tons Shipped	Selling Price/Ton	Revenue	COGS	COGS/Ton	Gross Profit	GM
Converted	42,980	$ 1,925	$ 82,736,500	$ 67,908,400	$ 1,580	$ 14,828,100	17.9%
Parent Roll	13,020	$ 879	$ 11,444,580	$ 10,416,000	$ 800	$ 1,028,580	9.0%
Total	56,000	$ 1,682	$ 94,181,080	$ 78,324,400	$ 1,399	$ 15,856,680	16.8%

We project 2011 revenue of $91.2 million and net income of $5.3 million or $0.69 per diluted share. We previously projected 2011 revenue of $102.5 million and net income of $9.9 million or $1.27 per diluted share. The decrease in our estimates is based on product placement delays and the highly competitive market. Competitive pressures have reduced our operating margin projections to 8.4% from 14.7% and also reduced our pretax income projections to $7.1 million from $14.1 million.

Our 2011 estimates are based on converted product sales starting to ramp in the second quarter. Orchids recently announced that it was granted new converted product business of approximately 0.7 million cases on an annual basis with shipping expected to start in the second quarter. This represents an increase in converted product shipments of approximately 12% based on the 5.8 million cases that were manufactured in 2010. We project gross margins of 15.1% (previously 21.6%) which reflect a competitive environment and pressure on selling prices that compress gross margins. We project the company will continue to keep its SG&A expenses under control (6.7% of sales) in 2011. The tax rate for 2011 is estimated at 25%.

For 2011 we are projecting cash earnings of $11.7 million and decreases in income tax receivables of $4.0 million will result in cash from operations of approximately $15.7 million. We project $3.5 million of capital expenditures, $2.0 million proceeds from the sale of investment securities, a $10.7 million pay down of debt, and $3.0 million in dividends paid will result in a $0.5 million net increase in cash in 2011 for an ending balance of $0.6 million. In February 2011, the company initiated a quarterly cash dividend policy of $0.10 per share.

We project 2012 revenue of $94.2 million and net income of $7.1 million or $0.90 per diluted share. An increase in converted product sales should result in gross margins of 16.8% and SG&A expenses of $7.0 million. The tax rate for 2012 is estimated at 25%.

Our 2012 estimates are based on higher margin converted product sales growth. The company recently secured new converted product business despite ongoing competitive pressures. With the company's cost competitive product and a growing economy, we see new orders continuing into 2012.

For 2012 we are projecting cash earnings of $13.4 million. A $0.3 million increase in working capital should result in cash from operations of approximately $13.1 million. We project $3.5 million of capital expenditures, $2.0 million proceeds from the sale of investment securities, an $8.0 million pay down of debt, and $3.0 million in dividends paid will result in a $0.6 million net increase in cash in 2012 for an ending balance of $1.2 million.

Risks

Customer concentration

Three customers (Dollar General, Family Dollar (NYSE: FDO), and Wal-Mart (NYSE: WMT)) accounted for approximately 66% of converted product sales in 2010. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition

As mentioned earlier, competitors moved into Orchids' operating region. In 2009 Pacific Paper added a new converting plant in Memphis, Tennessee and Clearwater Paper (NYSE: CLW) opened a converting plant in Oklahoma City, Oklahoma in 2010. Both plants are in Orchids' focused 500-mile sales area. The increased presence of competition in the company's focused region has reduced some of its competitive cost advantages and lowered margins due to pressure on selling prices.

Orchids may experience problems with its new converting line which could delay or cancel customer orders

The new converting line may not provide the capacity, capability or efficiency originally projected. This could lead to customer orders being delayed or canceled which could cause significant harm to the company's relationships with new or existing customers.

Orchids may not be able to sell the capacity from its new converting line

Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

Labor interruptions

All of Orchids' hourly paid employees are represented by a labor union. The collective bargaining agreement with Local 5-930, which represents the paper mill workers, will expire in February 2015, and the collective bargaining agreement with Local 5-1480, which represents the converting facility workers, will expire in June 2012. 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.

Unexpected shutdowns

Three of Orchids' four paper machines are approximately 50 years old. Unexpected production disruptions could cause the company to shut down its paper mill. Those disruptions could occur due to shortages of raw materials, disruptions in the availability of transportation, labor disputes and mechanical or process failures.

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 5.6 million shares in the float with an average daily volume of approximately 8,600 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.

Consolidated Balance Sheets
(in thousands $)

	2008A	2009A	2010A	2011E	2012E
Assets					
Current assets:					
Cash	11	1,232	142	627	1,229
Accounts receivable	6,514	6,750	6,155	6,068	6,268
Inventories	6,253	7,569	7,595	7,661	7,749
Short term investments	-	18,509	9,518	7,518	5,518
Income taxes receivable	-	-	3,952	-	-
Prepaid expenses	399	497	538	540	605
Deferred income taxes	557	547	790	785	1,180
Total current assets	13,734	35,104	28,690	23,200	22,548
Property, plant and equipment	60,659	72,691	93,805	91,605	89,405
Deferred debt issuance costs	89	104	76	100	100
Total Assets	**74,482**	**107,899**	**122,571**	**114,905**	**112,053**
Liabilities & stockholders' equity					
Current liabilities:					
Accounts payable	4,699	4,049	5,250	5,296	5,356
Accrued liabilities	2,584	3,118	2,269	2,237	2,311
Current portion of long-term debt	2,998	3,742	10,742	3,700	3,700
Total current liabilities	10,281	10,909	18,261	11,233	11,367
Long-term debt	21,067	19,533	16,615	13,000	5,000
Deferred income taxes	9,572	14,337	18,099	18,700	19,700
Total liabilities	**40,920**	**44,779**	**52,975**	**42,933**	**36,067**
Total stockholders' equity	**33,562**	**63,120**	**69,596**	**71,972**	**75,986**
Total liabilities & stockholders' equity	**74,482**	**107,899**	**122,571**	**114,905**	**112,053**

Source: Company filings and Taglich Brothers' estimates

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

	2008A	2009A	2010A	2011E	2012E
Net sales	90,202	95,963	92,504	91,200	94,200
Cost of sales	75,196	67,936	76,752	77,420	78,304
Gross profit	15,006	28,027	15,752	13,780	15,896
SG&A expenses	6,259	7,343	6,618	6,110	6,310
Operating income (loss)	8,747	20,684	9,134	7,670	9,586
Interest expense	1,361	692	934	600	240
Other (income) expense	(10)	(24)	(65)	(60)	(60)
Income (loss) before taxes	7,396	20,016	8,265	7,130	9,406
Income tax expense (benefit)	2,205	6,464	2,351	1,782	2,352
Net income (loss)	5,191	13,552	5,914	5,348	7,054
Basic EPS	0.82	2.00	0.80	0.71	0.94
Diluted EPS	0.79	1.89	0.76	0.69	0.90
Basic Shares Outstanding	6,329	6,771	7,464	7,498	7,500
Diluted Shares Outstanding	6,542	7,177	7,755	7,749	7,800
Margin Analysis					
Gross margin	16.6%	29.2%	17.0%	15.1%	16.9%
SG&A expenses	6.9%	7.7%	7.2%	6.7%	6.7%
Operating margin	9.7%	21.6%	9.9%	8.4%	10.2%
Net margin	5.8%	14.1%	6.4%	5.9%	7.5%
Year / Year Growth					
Total Revenues	20.8%	6.4%	-3.6%	-1.4%	3.3%
Net Income	99.8%	161.1%	-56.4%	-9.6%	31.9%
EPS	97.5%	138.0%	-59.6%	-9.5%	31.0%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2009, 2010, and 2011
(in thousands $)

	3/10A	6/10A	9/10A	12/10A	2010A	3/11E	6/11E	9/11E	12/11E	2011E	3/12E	6/12E	9/12E	12/12E	2012E
Net sales	21,040	24,686	24,523	22,256	92,504	22,000	22,800	23,100	23,300	91,200	23,500	23,525	23,575	23,600	94,200
Cost of sales	17,179	19,610	20,494	19,469	76,752	19,250	19,320	19,390	19,460	77,420	19,576	19,549	19,591	19,588	78,304
Gross profit	3,861	5,075	4,029	2,787	15,752	2,750	3,480	3,710	3,840	13,780	3,925	3,976	3,984	4,012	15,896
SG&A expenses	1,735	1,841	1,649	1,393	6,618	1,470	1,530	1,550	1,560	6,110	1,575	1,575	1,580	1,580	6,310
Operating income (loss)	2,126	3,234	2,380	1,394	9,134	1,280	1,950	2,160	2,280	7,670	2,350	2,401	2,404	2,432	9,586
Interest expense	215	211	249	259	934	150	150	150	150	600	60	60	60	60	240
Other (income) expense	(14)	(13)	(24)	(14)	(65)	(15)	(15)	(15)	(15)	(60)	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	1,925	3,036	2,155	1,149	8,265	1,145	1,815	2,025	2,145	7,130	2,305	2,356	2,359	2,387	9,406
Income tax expense (benefit)	565	864	713	209	2,351	286	454	506	536	1,782	576	589	590	597	2,352
Net income (loss)	1,360	2,172	1,442	940	5,914	859	1,361	1,519	1,609	5,348	1,729	1,767	1,769	1,790	7,054
Basic EPS	0.18	0.29	0.20	0.13	0.80	0.11	0.18	0.20	0.21	0.71	0.23	0.24	0.24	0.24	0.94
Diluted EPS	0.18	0.28	0.18	0.12	0.76	0.11	0.18	0.20	0.21	0.69	0.22	0.23	0.23	0.23	0.90
Basic Shares Outstanding	7,395	7,487	7,487	7,487	7,464	7,490	7,500	7,500	7,500	7,498	7,500	7,500	7,500	7,500	7,500
Diluted Shares Outstanding	7,729	7,768	7,762	7,742	7,755	7,745	7,750	7,750	7,750	7,749	7,800	7,800	7,800	7,800	7,800
Margin Analysis															
Gross margin	18.4%	20.6%	16.4%	12.5%	17.0%	12.5%	15.3%	16.1%	16.5%	15.1%	16.7%	16.9%	16.9%	17.0%	16.9%
SG&A expenses	8.2%	7.5%	6.7%	6.3%	7.2%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%
Operating margin	10.1%	13.1%	9.7%	6.3%	9.9%	5.8%	8.6%	9.4%	9.8%	8.4%	10.0%	10.2%	10.2%	10.3%	10.2%
Net margin	6.5%	8.8%	5.9%	4.2%	6.4%	3.9%	6.0%	6.6%	6.9%	5.9%	7.4%	7.5%	7.5%	7.6%	7.5%
Year / Year Growth															
Total Revenues	-11.0%	2.3%	-0.1%	-5.8%	-3.6%	4.6%	-7.6%	-5.8%	4.7%	-1.4%	6.8%	3.2%	2.1%	1.3%	3.3%
Net Income	-51.4%	-42.5%	-62.2%	-70.3%	-56.4%	-36.8%	-37.3%	5.3%	71.2%	-9.6%	101.2%	29.8%	16.5%	11.2%	31.9%
EPS	-57.9%	-49.0%	-65.5%	-70.0%	-59.6%	-37.6%	-37.2%	8.9%	71.0%	-9.5%	101.0%	29.0%	15.7%	10.5%	31.0%

Source: Company filings and Taglich Brothers' estimates

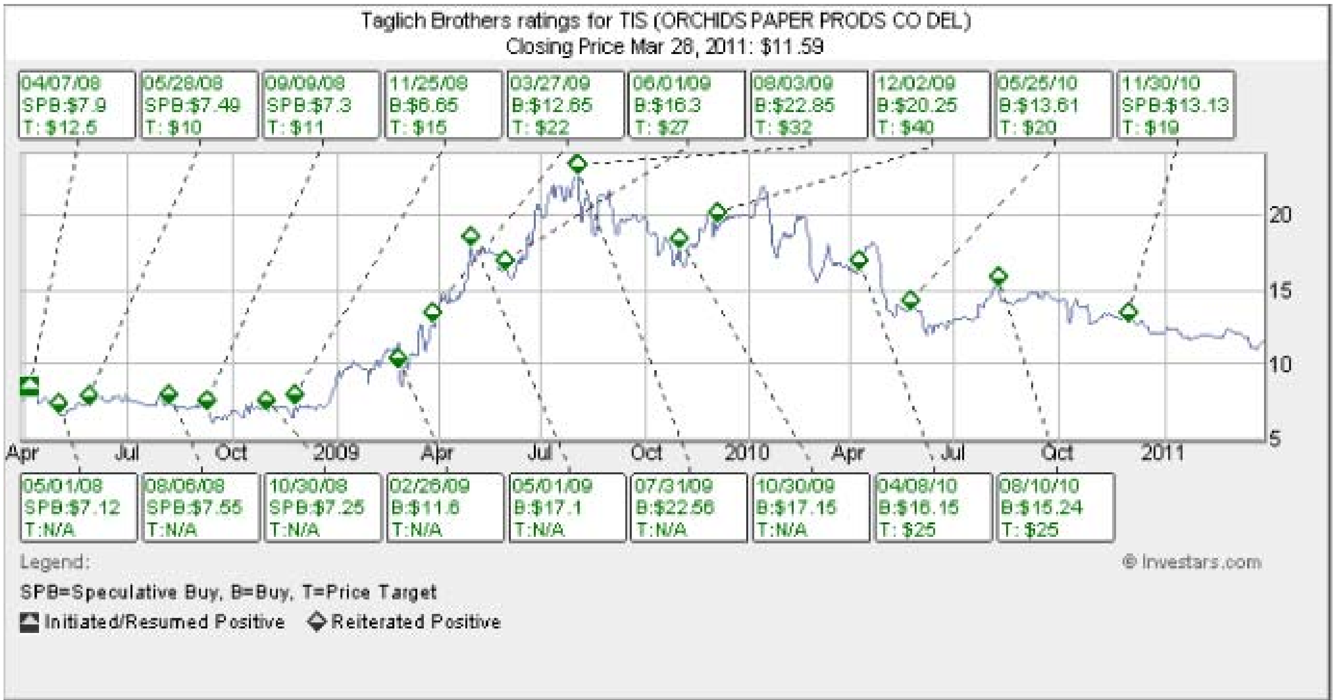
Orchids Paper Products Company

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

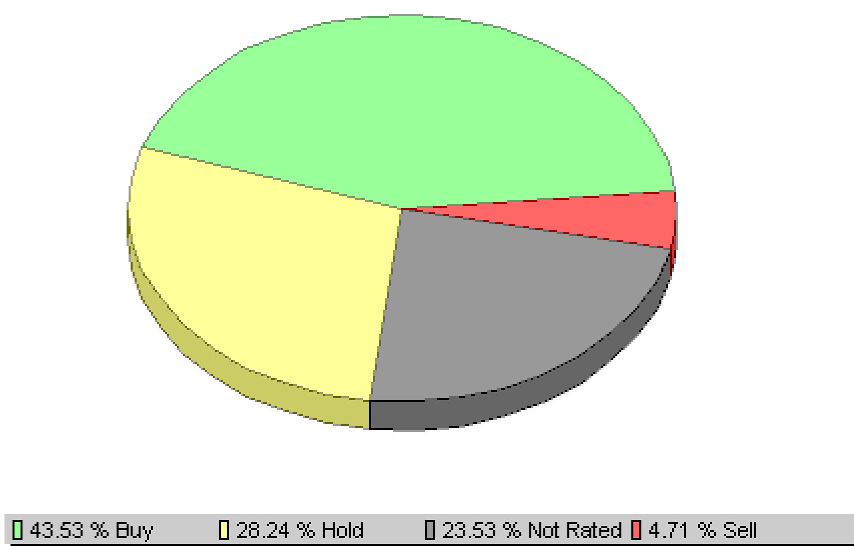
	2008A	2009A	2010A	2011E	2012E
Cash Flows from Operating Activities					
Net income(loss)	5,191	13,552	5,914	5,348	7,054
Depreciation and amortization	3,156	3,708	5,725	5,700	5,700
Provision for doubful accounts	87	60	(34)	60	60
Deferred income taxes	2,145	4,774	3,519	-	-
Stock based compensation	313	603	562	565	600
Changes in assets and liabilities					
Accounts receivable	(1,074)	(296)	629	87	(200)
Inventories	(1,379)	(1,316)	(26)	(66)	(87)
Prepaid expenses	(18)	(98)	(41)	(2)	(160)
Income taxes receivable	24	-	(3,952)	3,952	-
Accounts payable	(61)	(650)	1,201	46	60
Acrrued liabilities	124	535	(849)	(32)	74
Net Cash Provided by (Used in) Operations	**8,508**	**20,872**	**12,648**	**15,657**	**13,101**
Cash Flows from Investing Activities					
Proceeds from the sale of investment securities	-	3,993	8,991	2,000	2,000
Purchase of investment securities	-	(22,502)	-	-	-
Purchase of property and equipment	(6,926)	(15,711)	(26,786)	(3,500)	(3,500)
Net Cash Provided by (Used in) Investing	**(6,926)**	**(34,220)**	**(17,795)**	**(1,500)**	**(1,500)**
Cash Flows from Financing Activities					
Proceeds from issuance of stock	-	14,847	-	-	-
Borrowings under construction loan	-	3,756	5,197	-	-
Repayments on construction loan	-	-	-	(5,200)	-
Borrowings on long-term debt	-	-	-	-	-
Retirement of borrowings on long-term debt	-	-	-	-	-
Principal payments on long-term debt	(2,286)	(3,059)	(3,787)	(2,800)	(8,000)
Retirment of subordinated debentures	-	-	-	-	-
Net borrowings (repayments) on revolving credit line	696	(1,487)	2,672	(2,672)	-
Purchase of common stock by former CEO	-	-	-	-	-
Purchase by the company of common stock from former CEO	-	-	-	-	-
Proceeds from the exercise of warrants attached to debentures	16	286	-	-	-
Proceeds from the exercise of stock options		269	-	-	-
Deferred debt issuance cost	-	(43)	(25)	-	-
Dividends paid	-	-	-	(3,000)	(3,000)
Net Cash Provided by (Used in) Financing	**(1,574)**	**14,569**	**4,057**	**(13,672)**	**(11,000)**
Net Change in Cash	**8**	**1,221**	**(1,090)**	**485**	**601**
Cash - Beginning of Period	**3**	**11**	**1,232**	**142**	**627**
Cash - End of Period	**11**	**1,232**	**142**	**627**	**1,229**
Cash Flow from Operations	8,508	20,872	12,648	15,657	13,101
Capital Expenditures	(6,926)	(15,711)	(26,786)	(3,500)	(3,500)
Free Cash Flow	1,582	5,161	(14,138)	12,157	9,601

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		
Hold	None	
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 456,216 shares of TIS common stock (includes 338,744 shares of restricted stock). Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 438,317 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 144,150 shares of TIS common stock (includes 33,477 shares of restricted stock). Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 3,262 shares of TIS common 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. 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.

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)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

Meaning of Ratings

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.