Initial Research Report

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

Orchids Paper Products Company

Rating: Speculative Buy

John Nobile
April 7, 2008

TIS $7.90 — (AMEX)

	FY(2005)A	FY(2006)A	FY(2007)A	FY(2008)E
Revenues (millions)	$57.7	$60.2	$74.6	$83.3
Earnings (loss) per share	$0.30	$0.11	$0.40	$0.92

52-Week range	$10.35 – $5.00	Fiscal year ends:	December
Shares outstanding as of 2/29/08	6.3 million	Revenue per share (TTM)	$11.55
Approximate float	5.1 million	Price/Sales (TTM)	0.7X
Market capitalization	$50 million	Price/Sales (FY2008)E	0.6X
Tangible book value/share	$4.42	Price/Earnings (TTM)	19.8X
Price/tangible book value	1.8X	Price/Earnings (FY2008)E	8.6X

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 initiating coverage of Orchids Paper Products Company (AMEX: TIS) with a Speculative Buy rating and a twelve-month price target of $12.50 per share based on a multiple of 20X applied to our fiscal 2008 fully taxed earnings estimate of $0.62 per share ($0.92 partially taxed).

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.

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

ACNielsen reported that paper products represent the second best selling items at dollar stores based on dollar sales.

We believe that as Orchids' conversion rate increases, gross margins will continue to expand resulting in significant growth to the bottom line.

We are projecting Orchids' revenue in fiscal 2008 to increase 12% to $83.3 million and net income to more than double to $6.0 million or $0.92 per diluted share.

****Please view our disclaimer located on page 14.***

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.

Manufacturing and Distribution

Orchids owns and operates a paper manufacturing mill with two facilities and a converting facility at its headquarters in Pryor, Oklahoma. The Company’s two paper mill facilities, which total 162,000 square feet, produce parent rolls that are then converted into tissue products at an adjacent converting facility. The converting process, which varies slightly by product category, generally includes embossing, laminating, and perforating or cutting the parent rolls as they are unrolled; pressing two or more plies together in the case of multiple-ply products; printing designs in certain cases and cutting into rolls or stacks; wrapping in polyethylene film; and packing in corrugated boxes for shipment.

In June 2006, Orchids began operating a new paper machine with an annual capacity of approximately 33,000 tons. In the second quarter of 2007, the Company began running all of its older machines on a full-time basis. The capacity of the new machine, in addition to the capacity of its older machines, increased total production capacity to approximately 54,000 tons per year. As a result, beginning in the third quarter of 2006, Orchids was able to eliminate the requirement to purchase recycled parent rolls on the open market. The Company continues to buy a small quantity of premium virgin fiber-based parent rolls. Prior to the third quarter of 2006, Orchids had purchased parent rolls in the open market because its own parent roll production had not adequately supplied the requirements of its converting facility. The Company purchased 1,442, 6,970, and 12,153 tons of paper in the open market in 2007, 2006, and 2005, respectively, to supplement its paper-making capacity. As of April 1, 2008, Orchids has a five year exclusive waste paper supply agreement with Dixie Pulp and Paper, Inc.

Orchids services the value retail channel primarily by supplying distribution centers within its cost-effective shipping area. Freight is a significant cost component which limits the competitive geography of a given manufacturing facility. As mentioned earlier, the Company considers its current cost-effective shipping area to be within an approximate 900-mile radius of its facility. Orchids supplies a portion of or substantially all of its value private label products to over half of the value retail distribution centers located within its cost-effective shipping area.

Sales and Marketing

Orchids maintains an experienced sales staff and has established a network of independent brokers. The sales staff directly services four customers that represented approximately 33% of sales in 2007. Orchids also uses a network of approximately 40 brokers.

A majority of brokers provide marketing support to their retail accounts which includes shelf placement of products and in-store merchandising activities to support product distribution. Brokers are generally paid commissions ranging from 1% to 3% of revenue.

Market

As one would imagine, the US tissue market is a very large market. According to Tissue World Magazine, the US tissue market was a $12.3 billion market in 2006 and is projected to grow at a compound annual growth rate of approximately 1.5% into 2011.

Table 1: US tissue market

Retail prices ex-tax (millions of US$)	2001	2002	2003	2004	2005	2006	Growth 2006-11*
Toilet paper	5,507	5,635	5,484	5,495	5,906	6,306	2.15
Tissues	1,689	1,657	1,613	1,557	1,694	1,711	0.74
Boxed facial tissues	1,631	1,601	1,559	1,505	1,640	1,658	
Pocket handkerchiefs	57	56	55	52	54	53	
Kitchen towels	3,204	3,236	3,191	3,293	3,451	3,577	1.36
Paper tableware	715	700	681	668	668	657	-1.72
Napkins	629	621	606	596	600	595	
Tablecloths	86	80	75	72	68	61	

*Notes: *. Compound annual growth rate %*

Source: Tissue World Magazine

Although the overall tissue market in the US is projected to grow minimally over the next five 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.

In July 2007, the Government of Canada prepared an interesting report (Overview of the Retail Dollar Store Market in the United States, Opportunities for Canadian Agri-food Exporters) on the retail dollar store market in the United States. Some important statistics from this report include the following:

- On a scale of 0 to 100 (most threatening), dollar stores' competitive threat to traditional retail grocery stores averages 44.8 nationally. This threat is greatest in the South, where dollar stores enjoy a greater presence, with an average of 57.3. This is followed by the Midwest with an average of 46.3, the Northeast at 39.3, and finally the West with 37.1.

- In mid-2006, 65% of households shopped at dollar stores, up from 55% in 2000.

- Annual household trips to dollar stores grew from an average of 10 in 2000 to 12 in mid-2006.

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

- The average basket size of a trip to the dollar store grew from US $11 in 2000 to US$13 in mid-2006.

- Total dollar store sales came to US$27.5 billion in 2005, an increase of 9% from the previous year. Also, while there were over 800 dollar store companies, four chains, including Dollar General, Family Dollar (NYSE: FDO), Dollar Tree (NASDAQ: DLTR) and 99 Cents Only (NYSE: NDN), represented roughly two thirds of the entire channel's sales.

- In 2002, highly consumables, which consist of food, paper products and pet food, rose to represent 60% of the dollar store channel's retail mix, up from 42% in 2000.

- As of 2006, over 19,000 dollar stores were operational, a large increase from the 5,458 that existed in 1996. In 2006 alone, the dollar store channel increased its total store count by 1,100.

- In 2005, more than 8,000 new outlets were predicted to open by 2010.

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.

Competition and Competitive Advantage

Competition in the value-end of the market is significantly impacted by geographic location, as freight costs represent a material portion of end product costs. Orchids believes it is generally economically feasible to ship within approximately a 900-mile radius of its production site. The Company's competitors in Oklahoma and the immediately surrounding area are Georgia-Pacific's Muskogee, Oklahoma plant and Cascades' Memphis, Tennessee plant. Orchids faces greater competition in the Southeast and Midwest regions of the U.S. Georgia-Pacific has additional plants in Georgia and Wisconsin and Cascades has plants in Pennsylvania and Wisconsin. The Company also faces competition from other suppliers who have facilities in the Southwest, upper Midwest and Southeast regions of the United States.

Orchids believes the principal competitive factors in its market segments are price and service, and that its competitive strengths with respect to other private label manufacturers include long-standing relationships with value retailers, a full line of products and flexible converting capabilities, which enables the Company to produce tissue products in a variety of sizes, packs and weights.

In its last annual report, the Company listed the following as its key competitive strengths:

- Focus on supplying value retailers,
- Proximity to key customers,
- Experienced management team and trained workforce, and
- Low cost tissue manufacturers.

The Company also believes the number of competitors in private label segments will not significantly increase in the near future because of the large capital expenditures required to establish a paper mill and difficulties in obtaining environmental and local permits for tissue manufacturing facilities.

Customers

Orchids' customers include value retailers, grocery stores, grocery wholesalers and cooperatives, and convenience stores. Orchids' recent growth has come from serving customers in the value retail channel and the Company claims that it is among the first to focus on serving this channel. The Company has benefited from the value retail channels increased emphasis on consumables, like tissue products, as part of their merchandising strategies.

Dollar General is the Company's largest customer, accounting for 31% of converted product sales in fiscal 2007. Orchids currently supplies substantially all of the value private label tissue products for three of Dollar General's nine distribution centers. Dollar General is the oldest and leading dollar store company in the United States and is expected to open 300 to 400 new stores over the next two years. Dollar General offers a small convenient store format, which caters to consumers' basic shopping needs at very low prices. Merchandise items, 30% of which are priced at $1 or less, include paper products, housewares, toys, apparel, health and beauty products, cleanings supplies and foods and snacks.

Family Dollar is the Company's second largest customer, accounting for approximately 21% of converted product sales in fiscal 2007. Family Dollar currently has nine distribution centers and Orchids supplies substantially all of the value private label tissue products to three of the distribution centers and approximately half of the value private label tissue products to two other distribution centers. A "Fortune 500" company, Family Dollar is one of the fastest growing dollar store companies in the United States with February same-store sales growth of 1.3 percent. Offering merchandise from health and beauty products to automotive supplies, apparel, cleaning supplies, and food and candy, the majority of Family Dollar's merchandise is available for less than $10.

Wal-Mart (NYSE: WMT) is the Company's third largest customer, accounting for approximately 12% of converted product sales in fiscal 2007. Orchids currently serves 19 distribution centers with bath tissue and, to a lesser extent, paper towels. Wal-Mart is the largest discount retailer in the United States with February same-store sales growth of 2.6 percent.

Fiscal 2007 Financial Results

For the fourth quarter ended December 31, 2007 versus the same period in 2006:

- Net sales increased 17% to $20.3 million from $17.3 million.
- Gross margins increased to 15.9% from 13.9%.
- Selling, general and administrative (SG&A) expenses increased to $1.7 million from $1.1 million.
- Net income was $0.9 million or $0.13 per diluted share versus net income of $1.0 million or $0.15 per diluted share.

The increase in net sales was primarily the result of an 18% increase in tons shipped, to 13,339 tons, and to a lesser extent, a 7% increase in the selling price per ton of converted products. Tonnage shipments were favorably affected primarily by a more than five-fold increase in parent roll shipments. The Company's overall net selling price per ton was unfavorably affected by the mix effect of the increase in parent roll shipments, which was partially offset by the increase in converted product prices.

The increase in gross margins were primarily due to the increase in overall shipment volumes and higher converted product selling prices being somewhat offset by higher costs of paper and higher converting labor costs.

Higher costs associated with additions to the Company's Senior Management team and costs incurred in the first-year implementation of Sarbanes-Oxley compliance accounted for most of the increase in SG&A expenses. Non-recurring expenses associated with additions to the Senior Management team were $0.15 million in Q4/07.

For the fiscal year ended December 31, 2007 versus the same period in 2006:

- Net sales increased 24% to $74.6 million from $60.2 million.
- Gross margins increased to 14.6% from 10.3%.
- Selling, general and administrative (SG&A) expenses increased to $5.2 million from $4.2 million.
- Net income was $2.6 million or $0.40 per diluted share versus net income of $0.7 million or $0.11 per diluted share.

The increase in net sales was primarily due to the shipment of approximately 9,100 additional tons of parent rolls versus the prior year, a 6% increase in converted product prices, and a 5% increase in converted product shipments.

The increase in gross margins was due to reduced purchases of recycled parent rolls, higher selling prices for converted products and increases in overall shipment volumes. Increases in overall paper costs and higher converting labor costs were partially offsetting.

The increase in SG&A expenses was primarily due to higher costs associated with additions to the Company's Senior Management team and costs incurred in the first-year implementation of Sarbanes-Oxley compliance. Non-recurring expenses associated with additions to the senior management team were $0.43 million in fiscal 2007.

Balance Sheet

As of December 31, 2007, the Company’s cash balance was $3 thousand. Orchids had working capital of $1.7 million, long-term debt of $23.3 million with the majority maturing by April 2011, current portion of long-term debt of $2.4 million, and a tangible book value of $4.42 per share. The Company generated approximately $6.5 million cash from operations during fiscal 2007. Taglich Brothers defines cash flow as net income plus non-cash charges.

On March 6, 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 ($0.791 million outstanding at December 31, 2007, including $0.498 million of bank overdrafts);

- 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 ($10.0 million outstanding at December 31, 2007);

- a $16.5 million Term Loan B with a four year-term and is being amortized as if it had a six-year life ($14.9 million outstanding at December 31, 2007); and

- a $3.0 million capital expenditures facility with a four-year term that will be amortized as if it had a five-year life ($0 outstanding at December 31, 2007).

The Company’s credit facilities will be used to fund an automation project in the Company’s converting facility and to expand the Company’s wastewater pre-treatment. Details of these projects are outlined below:

Automation project - The converting automation project will involve the purchase and installation of case packers, conveyors and case unitizing equipment, which will reduce the amount of manual labor required in the operation. Equipment installation will begin in the second quarter of 2008 with completion expected by the fourth quarter of 2008. The Company plans to finance the $4.75 million project with a combination of cash generated from operations and borrowings under the revolving credit facility.

Wastewater pre-treatment expansion **-** A new water discharge permit was issued effective August 1, 2007 which requires Orchids to expand its existing pre-treatment facility to reduce biological oxygen demand and total suspended solids from its effluent stream. Under the new permit, Orchids is required to complete the expansion and make operational its pre-treatment facility by August 1, 2009. The project is in the pre-engineering phase and expected to cost approximately $3 million.

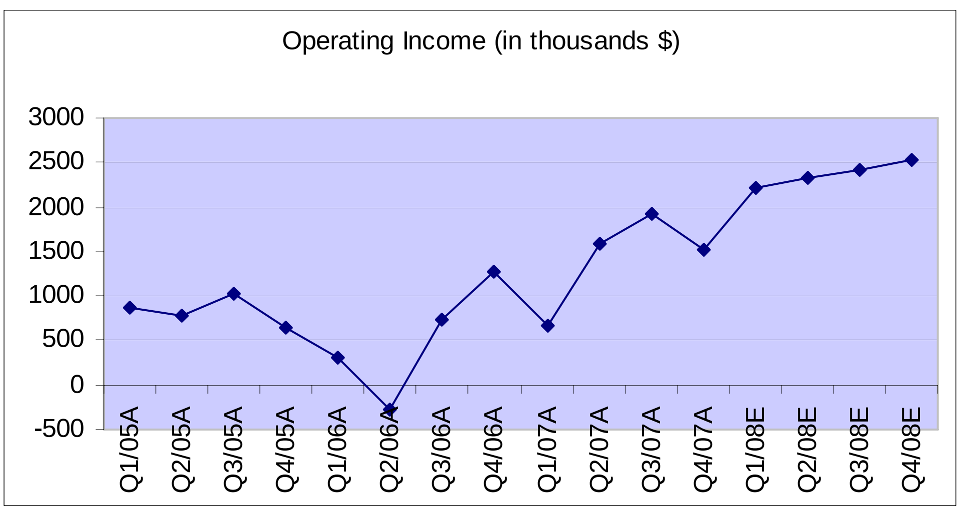
We believe that although the Company currently has virtually no cash, its positive cash flow and current credit arrangement will be sufficient to fund the Company's operations for next twelve months.

Projections

Orchids total tonnage shipped increased by 27% to 50,706 in fiscal 2007, while converted tonnage increased by 5% to 40,429 over the same time frame. We believe that with the current rate of growth in tonnage shipped and automation of the conversion process, Orchids will reach its capacity in terms of tonnage shipped (54,000 tons annually) in 2008 and will reach a 100% conversion rate in 2011.

In fiscal 2007, Orchids converted approximately 80% of its tonnage into finished product. We believe that as Orchids' conversion rate increases, gross margins will continue to expand resulting in significant growth to the bottom line. Also helping to boost Orchids' bottom line are price increases for tissue products in general. One major player in the industry is Kimberly-Clark (the largest rolled bathroom tissue manufacturer in the world), who said that its net selling prices in 2008 are anticipated to rise 1 to 2 percent. We believe this should help Orchids to raise prices accordingly.

We are projecting Orchids' revenue in fiscal 2008 to increase 12% to $83.3 million and net income to more than double to $6.0 million or $0.92 per diluted share. We believe Orchids will generate $9.9 million cash from operations in fiscal 2008. Listed below is a chart showing Orchids' growth in operating income throughout the past few years along with our estimates for 2008:



Source: Company filings and Taglich Brothers' estimates

Our fiscal 2008 estimates are made with the following assumptions:

- Orchids operating at 100% manufacturing capacity
- 43,403 tons converted for a conversion rate of approximately 80%
- Average selling price of $1,543 which is 1.5% higher that the most recent quarter's average selling price

- Gross margins firming to 17.6% as a greater percentage of parent rolls are converted into finished product

- SG&A expenses remaining relatively flat as there was a large amount of non-recurring SG&A expenses in fiscal 2007 associated with the hiring of several senior Management members along with first year implementation costs associated with Sarbanes-Oxley compliance.

- An effective tax rate of 11% due to the state of Oklahoma's investment tax credits associated with the investment in a new paper machine in the third quarter of 2006. The investment tax credit is earned ratably over a five year period of which Orchids expects to claim $0.7 million in each of the next few years.

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' converted product revenues are attributable to three large retail customers, which may decrease or cease purchases at any time. Orchids' largest customer, Dollar General, accounted for 31% of converted product revenue in 2007. Family Dollar and Wal-Mart, accounted for approximately 21% and 12%, respectively of converted product revenue in 2007. 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, 2007, Orchids had $25.6 million of indebtedness. In 2008, the Company anticipates making principal payments of approximately $2.4 million and interest payments of approximately $1.8 million. 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.

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.

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, 2007, Orchids had floating-rate borrowings of $25.2 million, excluding bank overdrafts, which are classified with bank debt in the balance sheet, but which bear no interest. 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.

The Company considered the historical volatility of short-term interest rates and determined that it would be reasonably possible that an adverse change of 100 basis points could be experienced in the near term. Based on the current borrowing, a 100 basis point increase in interest rates would result in a pre-tax $252,000 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 2012 and 2009, respectively. Mr. Snyder was recently appointed President and Chief Executive Officer following the retirement of Michael Sage in July 2007. While Mr. Snyder has extensive management experience in the paper industry, this is his first appointment as Chief Executive Officer and he has no prior experience at the Company. 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 our 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.

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 $3 million to reduce biological oxygen demand and total suspended solids from its discharge water. In addition, Orchids plans to install equipment that automates certain portions of its converting plant processes at a cost of $4.75 million in 2008. The Company may also need to acquire additional converting equipment to utilize its excess parent roll capacity and to supply new customers, which it currently estimates would cost $10 million to $15 million. If Orchids' capital resources are inadequate to provide for its operating needs, capital expenditures and other cash requirements, this shortfall could have a material adverse effect on its business and liquidity.

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 5.1 million shares in the float with an average daily volume of approximately 2,000 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 initiating coverage of Orchids Paper Products Company (AMEX: TIS) with a Speculative Buy rating.

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.

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

ACNielsen reported that paper products represent the second best selling items at dollar stores based on dollar sales.

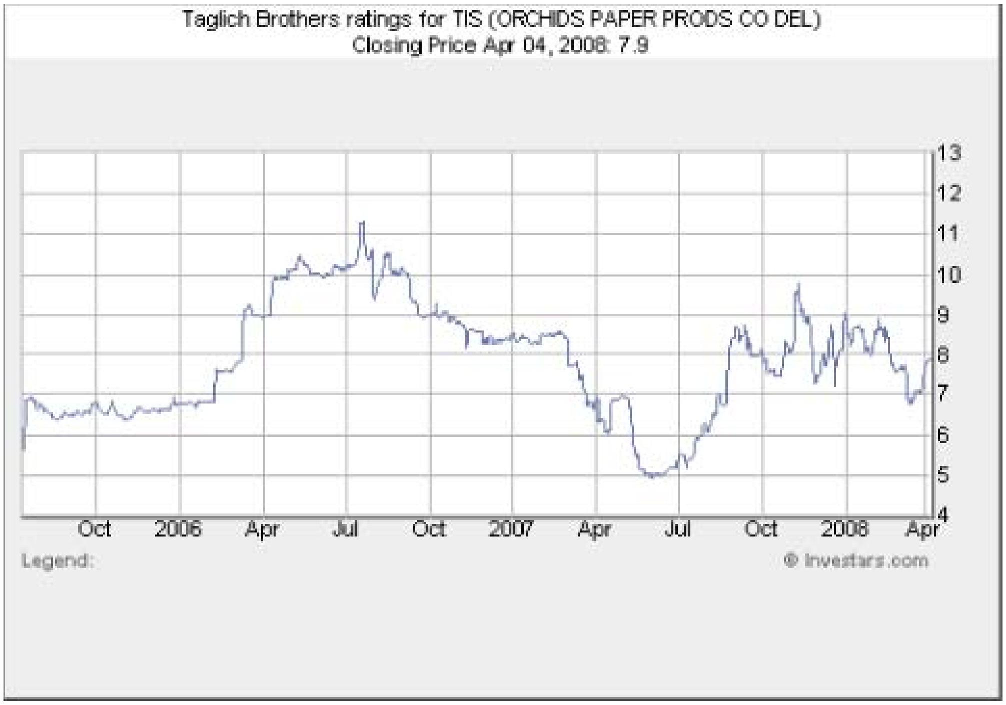
We believe that as Orchids' conversion rate increases, gross margins will continue to expand resulting in significant growth to the bottom line.

We are projecting Orchids' revenue in fiscal 2008 to increase 12% to $83.3 million and net income to more than double to $6.0 million or $0.92 per diluted share.

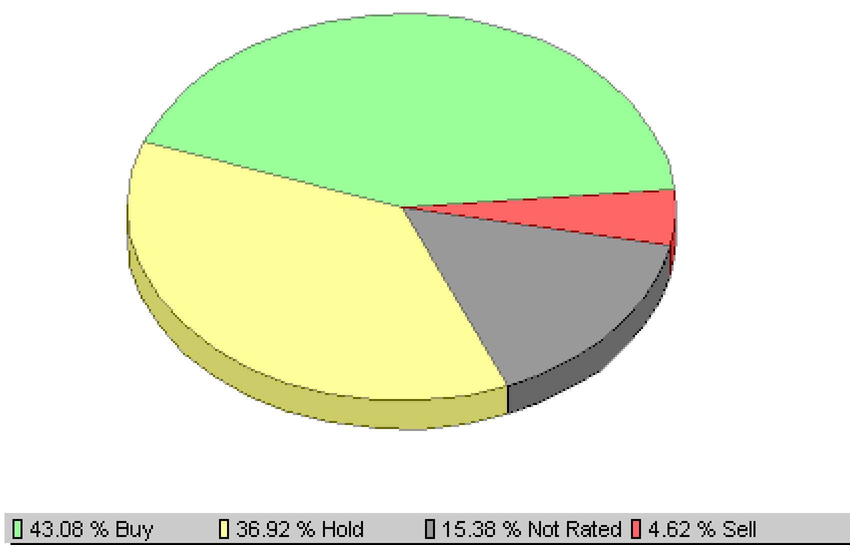
In order to get an appropriate multiple to apply to Orchids' earnings, we projected out several years to see what rate of growth earnings would appreciate at. We made the following assumptions in our forecast:

- manufacturing at maximum capacity during this time frame;
- converted product increasing at a rate of 7% annually as the Company focuses on automating and increasing the efficiency of its conversion process;
- average selling prices increasing at a rate of 1.5% annually;
- gross margins increasing to 24% by 2012 when we believe Orchids will be at a 100% product conversion rate; and
- all else held constant.

With these assumptions, our projected average annual earnings growth rate was approximately 20%. Assuming a PEG ratio of 1 applied to our fiscal 2008 fully taxed (40% tax rate) earnings estimate of $4.0 million or $0.62 per diluted share ($6.0 million or $0.92 per diluted share at our estimated 11% tax rate), we arrive at a **twelve-month price target of approximately $12.50 per share**.



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0.00%
Hold	2	9.52%
Sell	0	0.00%
Not Rated	0	0.00%

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.

Public companies mentioned in this report:

Dollar Tree (NASDAQ: DLTR)
Family Dollar (NYSE: FDO)
99 Cents Only (NYSE: NDN)
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 466,716 shares of TIS common stock and 35,050 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 41,948 shares of TIS common stock and 35,050 warrants. Richard Oh, Director of Research and Managing Director of Taglich Brothers, Inc., owns 8,233 shares of TIS common stock and 10,000 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 10,000 shares of TIS common stock and 30,000 warrants. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 22,377 shares of TIS common stock and 39,900 warrants. Within the last three years, 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. The company will pay a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports upon distribution of the initial report.

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.

Consolidated Balance Sheets
(in thousands $)

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

Orchids Paper Products Company

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

	FY(12/05)A	FY(12/06)A	FY(12/07)A	FY(12/08)E
Net sales	**$ 57,700**	**$ 60,190**	**$ 74,648**	**$ 83,300**
Cost of sales	50,385	53,988	63,717	68,636
Gross profit	7,315	6,202	10,931	14,664
Selling, general and administrative expenses	4,013	4,153	5,234	5,180
Operating income (loss)	3,302	2,049	5,697	9,484
Interest expense	1,213	1,980	2,828	2,800
Other (income) expense	(102)	(99)	(36)	(40)
Income (loss) before taxes	2,191	168	2,905	6,724
Income tax expense (benefit)	799	(564)	307	739
Net income (loss)	**$ 1,392**	**$ 732**	**$ 2,598**	**$ 5,985**
Basic EPS	**$ 0.31**	**$ 0.12**	**$ 0.42**	**$ 0.95**
Diluted EPS	**$ 0.30**	**$ 0.11**	**$ 0.40**	**$ 0.92**
Basic Shares Outstanding	4,453	6,234	6,256	6,330
Diluted Shares Outstanding	4,594	6,558	6,465	6,530
Margin Analysis				
Gross margin	12.68%	10.30%	14.64%	17.60%
Selling, general and administrative	6.95%	6.90%	7.01%	6.22%
Operating margin	5.72%	3.40%	7.63%	11.39%
Net margin	2.41%	1.22%	3.48%	7.18%
Year / Year Growth				
Total Revenues		4.32%	24.02%	11.59%
Net Income		-47.41%	254.92%	130.36%
EPS		-63.16%	260.02%	128.07%

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	6,256	6,256
Diluted Shares Outstanding	6,234	6,344	6,421	6,465	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%	-13.26%	260.02%

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

	Q1(3/08)E	Q2(6/08)E	Q3(9/08)E	Q4(12/08)E	FY(12/08)E
Net sales	**$ 20,600**	**$ 20,750**	**$ 20,900**	**$ 21,050**	**$ 83,300**
Cost of sales	17,098	17,140	17,180	17,219	68,636
Gross profit	3,502	3,611	3,720	3,831	14,664
Selling, general and administrative expenses	1,280	1,290	1,300	1,310	5,180
Operating income (loss)	2,222	2,321	2,420	2,521	9,484
Interest expense	700	700	700	700	2,800
Other (income) expense	(10)	(10)	(10)	(10)	(40)
Income (loss) before taxes	1,532	1,631	1,730	1,831	6,724
Income tax expense (benefit)	169	179	190	201	739
Net income (loss)	**$ 1,363**	**$ 1,452**	**$ 1,540**	**$ 1,630**	**$ 5,985**
Basic EPS	**$ 0.22**	**$ 0.23**	**$ 0.24**	**$ 0.26**	**$ 0.95**
Diluted EPS	**$ 0.21**	**$ 0.22**	**$ 0.24**	**$ 0.25**	**$ 0.92**
Basic Shares Outstanding	6,330	6,330	6,330	6,330	6,330
Diluted Shares Outstanding	6,530	6,530	6,530	6,530	6,530
Margin Analysis					
Gross margin	17.00%	17.40%	17.80%	18.20%	17.60%
Selling, general and administrative	6.21%	6.22%	6.22%	6.22%	6.22%
Operating margin	10.79%	11.18%	11.58%	11.98%	11.39%
Net margin	6.62%	7.00%	7.37%	7.74%	7.18%
Year / Year Growth					
Total Revenues	23.82%	12.07%	8.75%	3.81%	11.59%
Net Income	1140.46%	95.36%	35.58%	91.78%	130.36%
EPS	1093.29%	89.79%	33.32%	89.87%	128.07%

Orchids Paper Products Company

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

	FY2005	FY2006	FY2007
Cash Flows from Operating Activities			
Net income(loss)	$ 1,392	$ 732	$ 2,598
Depreciation and amortization	1,688	2,472	3,222
Provision for doubful accounts	46	(19)	-
Deferred income taxes	136	483	307
Stock based compensation	368	260	402
Foreign currency transaction gain (loss)	(35)	35	-
Unrealized gain (loss) on foreign exchange contracts	74	(74)	-
Changes in assets and liabilities			
Accounts receivable	(617)	(890)	(438)
Inventories	(1,372)	41	(495)
Prepaid expenses	(128)	152	(75)
Income taxes receivable	188	(1,148)	1,218
Accounts payable	697	895	988
Acrrued liabilities	207	(332)	655
Net Cash Provided by (Used in) Operations	**2,644**	**2,607**	**8,382**
Cash Flows from Investing Activities			
Purchases of securities and restricted CD	(17,259)	-	-
Proceeds from the sale of securities and restricted CD	16,509	-	1,500
Purchase of property and equipment	(18,488)	(18,133)	(1,818)
Net Cash Provided by (Used in) Investing	**(19,238)**	**(18,133)**	**(318)**
Cash Flows from Financing Activities			
Proceeds from the issuance of common stock	17,250	-	-
Cost of common staock and warrants issued	(2,239)	-	-
Borrowings on long-term debt	-	15,000	26,500
Retirement of borrowings on long-term debt	-	-	(25,866)
Principal payments on long-term debt	(1,643)	(1,586)	(2,472)
Retirment of subordinated debentures	-	-	(2,150)
Net borrowings (repayments) on revolving credit line	3,293	1,767	(4,270)
Purchase of common stock by former CEO	-	-	743
Purchase by the Company of common stock from former CEO	-	-	(405)
Deferred debt issuance cost	(174)	(30)	(144)
Net Cash Provided by (Used in) Financing	**16,487**	**15,151**	**(8,064)**
Net Change in Cash	**(107)**	**(375)**	**-**
Cash - Beginning of Period	**485**	**378**	**3**
Cash - End of Period	**$ 378**	**$ 3**	**$ 3**