Research Report – Update

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

Orchids Paper Products Company

Rating: Buy

John Nobile
April 8, 2010

TIS $16.15 — (NYSE AMEX)

	2008A	2009A	2010E	2011E
Revenues (millions)	$90.2	$96.0	$102.7	$125.0
Earnings per share	$0.79	$1.89	$1.91	$2.75

52-Week range	$22.98 – $13.20	Fiscal year ends:	December
Shares outstanding as of 3/5/10	7.4 million	Revenue per share (TTM)	$13.37
Approximate float	5.7 million	Price/Sales (TTM)	1.2X
Market capitalization	$122 million	Price/Sales (FY2011)E	1.0X
Tangible book value/share	$8.53	Price/Earnings (TTM)	8.5X
Price/tangible book value	1.9X	Price/Earnings (FY2011)E	5.9X

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, due to their consistent order patterns, limited number of stock keeping units offered and the growth potential in this channel of the retail market. (www.orchidspaper.com)

Key investment considerations:

We are reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS) but lowering our twelve-month price target to $25.00 per share (previously $40.00) primarily due to recent contractions of the stock's earnings multiple.

Orchids' expansion project (new warehouse and converting line) should be ready for start-up by the end of Q2/10 and should support strong sales gains in the 2nd half of 2010 and all of 2011. The new converting line will be capable of various packaging options and enhanced graphics and embossing which is necessary to enter the grocery store market.

For 2010, we project revenue of $102.7 million and EPS of $1.91 per diluted share. We previously projected revenue of $114.5 million and EPS of $2.36. The decrease in our estimates reflects low average selling prices in the first half of the year due to lingering economic weakness and the impact of increased waste paper costs on gross margins.

We project a 30% rise in sales of higher margin converted products in 2011, resulting in revenue of $125.0 million and net income of $21.6 million or $2.75 per diluted share.

On February 24, 2010, Orchids reported Q4/10 sales decreased 3% to $23.6 million. Q4/10 EPS increased to $0.40 from $0.34 in Q4/09. We projected Q4/10 sales of $25.0 million and EPS of $0.48. 2009 sales increased 6% to $96.0 million and EPS increased to $1.89 per share from $0.79 per share.

Please view our disclosures starting on page 12.

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Recommendation and Valuation

We are reiterating our **Buy** rating on Orchids Paper Products as we believe the stock offers the potential for significant price appreciation from its current level.

The company's multiple has averaged 15X TTM earnings from 2005 to 2007, but averaged 9X TTM over the last two years. We believe the current forward multiple of 6X will firm as the company's converted product sales start to show significant increases. Applying a multiple of 9X to our earnings per share estimate of $2.75 for 2011 gives us a price target of approximately $25.00 per share.

Market

According to RISI, a leading information provider for the global forest products industry, the tissue market is comprised of toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other uses (1%).

IBISWorld projects the US tissue market of $10.0 billion in 2010. While industry revenue has declined over the past few years, growth into 2012 will be driven by a recovery in the U.S. economy. IBISWorld projects the overall industry to increase slightly at an average annualized rate of 0.6% over the five years through 2015.

IBISWorld said that dollar and variety stores, Orchids' primary target markets, accounted for a $48 billion (8%) market share from America's $612 billion general merchandise sector in 2009 and have taken market share away from department stores and large general merchandise retailers. However, IBISWorld projects that dollar and variety stores will lose some market share over the next five years as revenue from large general merchandise stores rise. IBISWorld projects dollar and variety stores growth averaging 0.2% over the next five years.

4th Quarter and Fiscal Year Financial Results

For the fourth quarter ended December 31, 2009 versus the same period in 2008:

- Net sales decreased 3% to $23.6 million from $24.3 million.
- Gross margins increased to 26.8% from 22.2%.
- Selling, general and administrative (SG&A) expenses decreased to $1.7 million from $1.8 million.
- Interest expense decreased to $0.2 million from $0.3 million.
- Net income was $3.2 million or $0.40 per diluted share versus net income of $2.3 million or $0.34 per diluted share.

We estimated fourth quarter net sales of $25.0 million and net income of $3.8 million or $0.48 per diluted share.

Converted product sales decreased to $20.9 million from $21.1 million while parent roll sales decreased to $2.7 million from $3.2 million. Total tons shipped increased to 13,874 from 13,184, while paper costs decreased to approximately $10.7 million from approximately $10.9 million. The overall net selling price per ton decreased to $1,704 from $1,843. We believe the decrease in total sales and net selling prices was the result of weak economic conditions.

For the fiscal year ended December 31, 2009 versus the same period in 2008:

- Net sales increased 6% to $96.0 million from $90.2 million.
- Gross margins increased to 29.2% from 16.6%.
- Selling, general and administrative (SG&A) expenses increased to $7.3 million from $6.3 million.
- Interest expense decreased to $0.7 million from $1.4 million.
- Net income was $13.6 million or $1.89 per diluted share versus net income of $5.2 million or $0.79 per diluted share.

Converted product sales increased to $86.6 million from $74.9 million while parent roll sales decreased to $9.3 million from $15.3 million. Total tons shipped decreased to 52,355 from 54,207, while paper costs decreased to approximately $36.5 million from approximately $44.2 million. The overall net selling price per ton increased to $1,833 from $1,664.

The increase in gross margins was due to lower paper production costs stemming from lower costs for waste paper, natural gas, converting direct labor, and packaging costs.

The increase in SG&A expenses was due to higher incentive bonuses, increased stock option expense, and higher commission expense due to increased converted product sales.

The decrease in interest expense was primarily due to lower interest rates on reduced debt.

Liquidity

Orchids exhibits a healthy balance sheet. Orchids has a current ratio of 3.2 and a debt/equity ratio of 0.4. This compares to the paper products industry's current ratio of 1.9 and debt/equity ratio of 1.2. Days sales outstanding (DSO) remained constant compared with the prior fiscal year at 26 while inventory turnover decreased to 9X from 12X. Orchids' debt of $23.3 million ($3.7 million due in less than one year) consists of a $9.8 million term loan due April 2017, a $9.7 million term loan due April 2011, and a $3.8 million term loan due November 2012. 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%.

Cash flows from operating activities were $20.9 million in 2009. Cash earnings of $22.7 million, a $1.3 million increase in inventories and a $0.7 million decrease in accounts payable were the main drivers.

Cash flows used in investing activities were $34.2 million in 2009 primarily due to $18.5 million in net purchases of investment securities and $15.7 million invested in capital equipment projects.

Cash flows from financing activities was $14.6 million in 2009 primarily attributable to $14.8 million in proceeds from a follow-on common stock offering, and $3.8 million borrowings under a construction loan, offset by $3.1 million in principal payments on bank term loans as well as a $1.5 million payoff of the revolving credit line.

The company generated $1.2 million net cash for the year for an ending balance of $1.2 million.

Outlook

Orchids' new warehouse and expanded converting line should be ready for start up by the end of the second quarter of 2010 and be at full capacity by the end of the third quarter of 2010. Construction of the new warehouse began in the fourth quarter of 2009. Half of the facility should be ready for occupancy by May 2010 and the remainder available by July 2010.

The new converting line, which has a practical capacity of four million cases per year, will be capable of producing both bathroom tissue and towel products. It will also be capable of various packaging options and enhanced graphics and embossing which is necessary to enter 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 converting line should be approximately 66,000 tons annually. This means that at full capacity, the company would have to purchase approximately 12,000 parent rolls in the outside market to augment the current 54,000 ton parent roll capacity from existing equipment.

The additional converting capacity should support a roughly 60% increase in converted paper production. We believe that the new converting line's ability to produce a better quality product will enable the company to increase sales to grocery stores. At least two large grocery chains in Orchids' primary selling radius should absorb as much as 2/3 (2.7 million cases) of Orchids' additional capacity and the dollar stores that Orchids currently sells to aim to purchase increased volume from Orchids. Due to the company's proximity to these stores, Orchids' products should save these stores approximately 2/3 in shipping costs compared with current competitors' products, a significant competitive advantage.

Although Orchids' cost competitive advantage suggests significant market penetration with current competitors, new competitors are moving into Orchids' operating region. In 2009 Pacific Paper added a new converting plant in Memphis, Tennessee and Cellu Tissue (NYSE: CLU) announced the opening of a converting plant in Oklahoma City, Oklahoma for 2010. Both plants are in Orchids' focused 500-mile sales area. The increased presence of competition in the company's focused region may reduce some of its competitive cost advantages which could result in the loss of business or force Orchids to reduce prices.

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, until we see the effect that new competition is having on Orchids' ability to price and sell products in its cost competitive area, we are providing estimates based on a 30% increase in converted production (1/2 of new converting line's capacity). This equates to Orchids converting 100% of its current parent roll capacity into finished product.

Natural gas is an important production resource, accounting for 6% of the cost of sales. The company entered into a contract to purchase 334,000 MMBTU of its natural gas requirements at $7.50 per MMBTU plus a $0.07 per MMBTU management delivery fee for the period from April 2009 through March 2011. The contract was extended for one year to March 2012 for 334,000 MMBTU at $6.50 per MMBTU plus a $0.07 per MMBTU management delivery fee. The amounts represent approximately 60% of the company's natural gas requirements based upon usage rates for 2009. Due to hedging, changes in the price of natural gas should not have as pronounced an effect on the cost of sales as it previously did.

Projections

We project 2010 revenue of $102.7 million and net income of $15.0 million or $1.91 per diluted share. We previously projected 2010 revenue of $114.5 million and net income of $18.6 million or $2.36 per diluted share. The decrease in our estimates is primarily due to low average selling prices in the first half of the year due to a slow economic recovery and the impact of increased waste paper prices on gross margins. Our projections are made on the basis that waste paper prices will stay at current elevated levels which has resulted in a reduction of our gross margin estimates to 30.1% from 33.0%.

Our 2010 estimates are based on:

- Revenue ramp in the second half of the year as the new converting line becomes operational. Full capacity is projected for the end of Q3/10, but we believe the presence of new competition could hamper growth.
- SG&A expenses increasing due to increased converted product sales.
- A tax rate of 34% as Oklahoma Investment Tax Credits related to the new paper machine will likely eliminate state taxes for the next few years.

For 2010 we are projecting cash earnings of $25.3 million. Revenue gains will drive increases in accounts receivable, inventories, accounts payable, and accrued liabilities which should result in cash from operations of approximately $24.8 million. $22.6 million of capital expenditures for facility expansion will be partially offset by $5.0 million proceeds from the sale of securities. The company plans on borrowing $5.4 million under a construction loan. An $11.7 million pay down in debt should result in cash used in financing of $5.8 million. We project a $1.4 million net increase in cash in 2010 for an ending balance of $2.6 million.

We project 2011 revenue of $125.0 million and net income of $21.6 million or $2.75 per diluted share.

Our 2011 estimates are based on:

- A 60% increase in converted product sales due to the new converting line.

- Gross margins of 34% due to increased higher margin converted product sales. With recent margins averaging approximately 29% on a 75% conversion rate, we believe the potential exists for margins of approximately 38% to 39% with full conversion of the existing 54,000 ton parent roll capacity. However, our gross margins have been adjusted to account for the effect that new competition might have on Orchids' ability to price and sell products, along with potential underutilization of the new facility and equipment.

- SG&A expenses increasing due to increased converted product sales

- A tax rate of 34% (same reason mentioned for 2010).

For 2011 we are projecting cash earnings of $27.6 million. A significant increase in sales will increase accounts receivables, inventories, accounts payable, and accrued liabilities, resulting in cash from operations of approximately $26.2 million. We project $7.0 million of capital expenditures and a $5.8 million pay down of debt will result in a $13.9 million net increase in cash in 2011 for an ending balance of $16.6 million.

Business

In March 2004, Orchids Acquisition Group, Inc. acquired the company for a price of $21.6 million. Orchids Acquisition Group, Inc., formed by Taglich Brothers, Inc. and Weatherly Group, LLC to acquire all of the outstanding shares of Orchids Paper Products Company, 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.

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 an area of approximately 500 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®. 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.

Risks

Customer concentration
A substantial percentage of Orchids' product revenues are attributable to three significant customers (Dollar General, Family Dollar, and Wal-Mart) that accounted for approximately 64% of converted product sales in 2009. 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 are moving into Orchids' operating region. In 2009 Pacific Paper added a new converting plant in Memphis, Tennessee and Cellu Tissue (NYSE: CLU) announced the opening of a converting plant in Oklahoma City, Oklahoma for 2010. Both plants are in Orchids' focused 500-mile sales area. The increased presence of competition in the company's focused region may reduce some of its competitive cost advantages which could result in the loss of business or force Orchids to reduce prices.

Substantial capital requirements
Orchids' operations require substantial capital. The company's current levels of business have resulted in the necessity to utilize a third-party warehouse. Orchids is currently building a new warehouse adjacent to its converting facility, which it estimates would cost approximately $6.8 million. In addition, the company will be adding a new converting line which it currently estimates will cost approximately $20.3 million. Although we believe the company will have sufficient resources to meet its anticipated financial obligations for 2010, there is always the risk that actual results will fall short of expectations which could result in insufficient cash flow to fund expansion projects.

Orchids may experience problems with its new converting line which could delay or cancel customer orders
The completion of the new converting line could be delayed or the 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 2011, 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 any number of circumstances, including 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 5.7 million shares in the float with an average daily volume of approximately 60,000 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.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	2007A	2008A	2009A	2010E	2011E
Assets					
Current assets:					
Cash	3	11	1,232	2,641	16,566
Accounts receivable	5,527	6,514	6,750	7,224	8,792
Inventories	4,874	6,253	7,569	7,996	9,192
Short term investments	-	-	18,509	13,500	13,500
Income taxes receivable	24	-	-	-	-
Prepaid expenses	381	399	497	525	525
Deferred income taxes	516	557	547	550	550
Total current assets	11,325	13,734	35,104	32,436	49,125
Property, plant and equipment	56,856	60,659	72,691	90,400	92,540
Deferred debt issuance costs	122	89	104	100	100
Total Assets	**68,303**	**74,482**	**107,899**	**122,936**	**141,765**
Liabilities & stockholders' equity					
Current liabilities:					
Accounts payable	4,760	4,699	4,049	4,278	4,917
Accrued liabilities	2,460	2,584	3,118	3,337	4,061
Current portion of long-term debt	2,391	2,998	3,742	1,900	900
Total current liabilities	9,611	10,281	10,909	9,514	9,878
Long-term debt	23,264	21,067	19,533	9,700	4,900
Deferred income taxes	7,386	9,572	14,337	19,100	19,600
Total liabilities	**40,261**	**40,920**	**44,779**	**38,314**	**34,378**
Total stockholders' equity	**28,042**	**33,562**	**63,120**	**84,622**	**107,387**
Total liabilities & stockholders' equity	**68,303**	**74,482**	**107,899**	**122,936**	**141,765**

Source: Company filings and Taglich Brothers' estimates

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

	2007A	2008A	2009A	2010E	2011E
Net sales	74,648	90,202	95,963	102,700	125,000
Cost of sales	63,717	75,196	67,936	71,770	82,500
Gross profit	10,931	15,006	28,027	30,930	42,500
SG&A expenses	5,234	6,259	7,343	7,500	9,000
Operating income (loss)	5,697	8,747	20,684	23,430	33,500
Interest expense	2,828	1,361	692	800	800
Other (income) expense	(36)	(10)	(24)	(60)	(60)
Income (loss) before taxes	2,905	7,396	20,016	22,690	32,760
Income tax expense (benefit)	307	2,205	6,464	7,716	11,139
Net income (loss)	2,598	5,191	13,552	14,974	21,621
Basic EPS	0.42	0.82	2.00	2.02	2.92
Diluted EPS	0.40	0.79	1.89	1.91	2.75
Basic Shares Outstanding	6,256	6,329	6,771	7,400	7,400
Diluted Shares Outstanding	6,465	6,542	7,177	7,850	7,850
Margin Analysis					
Gross margin	14.64%	16.6%	29.2%	30.1%	34.0%
SG&A expenses	7.01%	6.9%	7.7%	7.3%	7.2%
Operating margin	7.63%	9.7%	21.6%	22.8%	26.8%
Net margin	3.48%	5.8%	14.1%	14.6%	17.3%
Year / Year Growth					
Total Revenues	24.02%	20.8%	6.4%	7.0%	21.7%
Net Income	254.92%	99.8%	161.1%	10.5%	44.4%
EPS	260.02%	97.5%	138.0%	1.0%	44.4%

Source: Company filings and Taglich Brothers' estimates

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

	3/09A	6/09A	9/09A	12/09A	2009A	3/10E	6/10E	9/10E	12/10E	2010E	3/11E	6/11E	9/11E	12/11E	2011E
Net sales	23,640	24,131	24,557	23,635	95,963	23,700	24,000	26,000	29,000	102,700	30,500	31,000	31,500	32,000	125,000
Cost of sales	17,208	16,303	17,128	17,297	67,936	17,360	17,040	17,940	19,430	71,770	20,130	20,460	20,790	21,120	82,500
Gross profit	6,432	7,828	7,429	6,338	28,027	6,340	6,960	8,060	9,570	30,930	10,370	10,540	10,710	10,880	42,500
SG&A expenses	1,830	2,087	1,772	1,654	7,343	1,650	1,700	2,000	2,150	7,500	2,250	2,250	2,250	2,250	9,000
Operating income (loss)	4,602	5,741	5,657	4,684	20,684	4,690	5,260	6,060	7,420	23,430	8,120	8,290	8,460	8,630	33,500
Interest expense	159	135	174	224	692	200	200	200	200	800	200	200	200	200	800
Other (income) expense	(3)	(1)	(5)	(15)	(24)	(15)	(15)	(15)	(15)	(60)	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	4,446	5,607	5,488	4,475	20,016	4,505	5,075	5,875	7,235	22,690	7,935	8,105	8,275	8,445	32,760
Income tax expense (benefit)	1,649	1,832	1,673	1,310	6,464	1,532	1,726	1,998	2,460	7,716	2,698	2,756	2,814	2,871	11,139
Net income (loss)	2,797	3,775	3,815	3,165	13,552	2,973	3,349	3,877	4,775	14,974	5,237	5,349	5,461	5,574	21,621
Basic EPS	0.44	0.58	0.56	0.42	2.00	0.40	0.45	0.52	0.65	2.02	0.71	0.72	0.74	0.75	2.92
Diluted EPS	0.42	0.55	0.52	0.40	1.89	0.38	0.43	0.49	0.61	1.91	0.67	0.68	0.70	0.71	2.75
Basic Shares Outstanding	6,409	6,469	6,839	7,392	6,771	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400
Diluted Shares Outstanding	6,684	6,891	7,304	7,831	7,177	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850	7,850
Margin Analysis															
Gross margin	27.2%	32.4%	30.3%	26.8%	29.2%	26.8%	29.0%	31.0%	33.0%	30.1%	34.0%	34.0%	34.0%	34.0%	34.0%
SG&A expenses	7.7%	8.6%	7.2%	7.0%	7.7%	7.0%	7.1%	7.7%	7.4%	7.3%	7.4%	7.3%	7.1%	7.0%	7.2%
Operating margin	19.5%	23.8%	23.0%	19.8%	21.6%	19.8%	21.9%	23.3%	25.6%	22.8%	26.6%	26.7%	26.9%	27.0%	26.8%
Net margin	11.8%	15.6%	15.5%	13.4%	14.1%	12.5%	14.0%	14.9%	16.5%	14.6%	17.2%	17.3%	17.3%	17.4%	17.3%
Year / Year Growth															
Total Revenues	16.6%	8.1%	5.3%	-2.7%	6.4%	0.3%	-0.5%	5.9%	22.7%	7.0%	28.7%	29.2%	21.2%	10.3%	21.7%
Net Income	357.8%	325.6%	168.1%	39.4%	161.1%	6.3%	-11.3%	1.6%	50.9%	10.5%	76.2%	59.7%	40.9%	16.7%	44.4%
EPS	351.9%	303.1%	138.6%	15.7%	138.0%	-7.9%	-22.1%	-5.4%	50.5%	1.0%	76.2%	59.7%	40.9%	16.7%	44.4%

Source: Company filings and Taglich Brothers' estimates

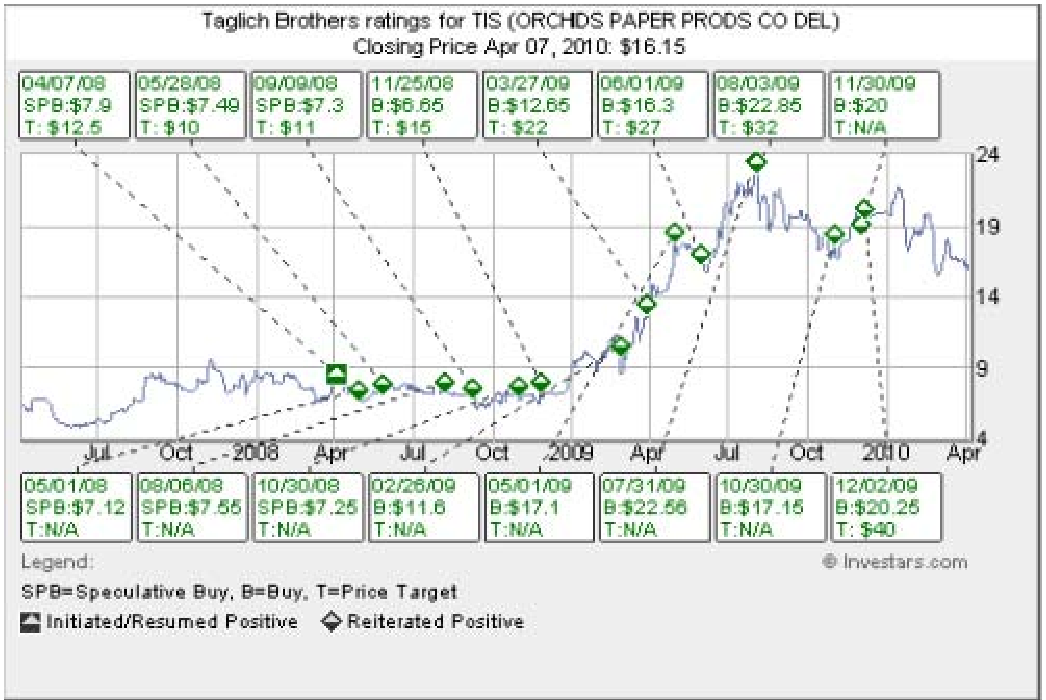
Orchids Paper Products Company

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

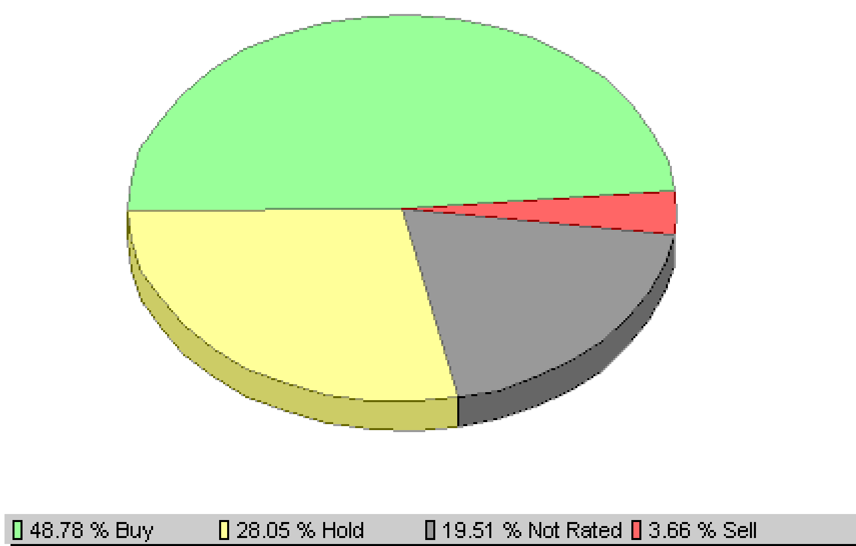
	2007A	2008A	2009A	2010E	2011E
Cash Flows from Operating Activities					
Net income(loss)	2,598	5,191	13,552	14,974	21,621
Depreciation and amortization	3,222	3,156	3,708	4,860	4,860
Provision for doubful accounts	-	87	60	60	60
Deferred income taxes	307	2,145	4,774	4,760	500
Stock based compensation	402	313	603	600	600
Changes in assets and liabilities					
Accounts receivable	(438)	(1,074)	(296)	(474)	(1,569)
Inventories	(495)	(1,379)	(1,316)	(427)	(1,195)
Prepaid expenses	(75)	(18)	(98)	(28)	(28)
Income taxes receivable	1,218	24	-	-	-
Accounts payable	988	(61)	(650)	229	640
Acrrued liabilities	655	124	535	219	725
Net Cash Provided by (Used in) Operations	**8,382**	**8,508**	**20,872**	**24,772**	**26,213**
Cash Flows from Investing Activities					
Proceeds from the sale of securities and restricted CD	1,500	-	3,993	5,000	-
Purchase of investment securities	-	-	(22,502)	-	-
Purchase of property and equipment	(1,818)	(6,926)	(15,711)	(22,600)	(7,000)
Net Cash Provided by (Used in) Investing	**(318)**	**(6,926)**	**(34,220)**	**(17,600)**	**(7,000)**
Cash Flows from Financing Activities					
Proceeds from issuance of stock	-	-	14,847	-	-
Borrowings under construction loan	-	-	3,756	5,400	-
Repayments on construction loan		-	-	(7,975)	(1,180)
Borrowings on long-term debt	26,500	-	-	-	-
Retirement of borrowings on long-term debt	(25,866)	-	-	-	-
Principal payments on long-term debt	(2,472)	(2,286)	(3,059)	(3,700)	(4,620)
Retirment of subordinated debentures	(2,150)	-	-	-	-
Net borrowings (repayments) on revolving credit line	(4,270)	696	(1,487)	-	-
Purchase of common stock by former CEO	743	-	-	-	-
Purchase by the company of common stock from former CEO	(405)	-	-	-	-
Proceeds from the exercise of warrants attached to debentures	-	16	286	286	286
Proceeds from the exercise of stock options			269	269	269
Deferred debt issuance cost	(144)	-	(43)	(43)	(43)
Net Cash Provided by (Used in) Financing	**(8,064)**	**(1,574)**	**14,569**	**(5,763)**	**(5,288)**
Net Change in Cash	**-**	**8**	**1,221**	**1,409**	**13,925**
Cash - Beginning of Period	**3**	**3**	**11**	**1,232**	**2,641**
Cash - End of Period	**3**	**11**	**1,232**	**2,641**	**16,566**
Cash Flow from Operations	8,382	8,508	20,872	24,772	26,213
Capital Expenditures	(1,818)	(6,926)	(15,711)	(22,600)	(7,000)
Free Cash Flow	6,564	1,582	5,161	2,172	19,213

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	1	3.57%
Hold	1	33.33%
Sell	0	0.00%
Not Rated	0	0.00%

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 and 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 and 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 161,323 shares of TIS common stock and 33,477 shares of restricted stock. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 6,762 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

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research.

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

Cellu Tissue (NYSE: CLU)
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.