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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
April 12, 2012

TIS $18.25 — (NYSE AMEX)

	2010A	2011A	2012E	2013E
Revenues (millions)	$92.5	$97.8	$102.9	$105.0
Earnings per share	$0.76	$0.80	$1.00	$1.13

52-Week range	$8.53 – $19.25	Fiscal year ends:	December
Shares outstanding a/o 3/1/12	7.5 million	Revenue per share (TTM)	$12.67
Approximate float	6.0 million	Price/Sales (TTM)	1.4X
Market capitalization	$139 million	Price/Sales (FY2013)E	1.3X
Tangible book value/share	$9.65	Price/Earnings (TTM)	22.8X
Price/tangible book value	1.9X	Price/Earnings (FY2013)E	16.2X
Annual dividend	$0.80	Dividend Yield	4.4%

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:

Reiterate Speculative Buy rating. $21.00 (12-month) target, increased from $18.50.

Management Consulting firm Poyry forecasts private label tissue products such as Orchids' to capture market share. This should bode well for Orchids' sales as its products are primarily sold under its customers' private labels.

Increased sales of higher margin converted products should result in increased earnings through our forecast horizon.

We project 2012 revenue of $102.9 million and EPS of $1.00 versus earlier estimates of $104.5 million revenue and EPS of $0.92. The significant increase in our earnings estimates stems from increased shipments of higher margin converted products and lower cost of sales. We project 2013 revenue of $105.0 million and EPS of $1.13.

Orchids reported Q4/11 sales increased 15% to $25.7 million. Q4/11 EPS of $0.35 (versus $0.12 in Q4/10) exceeded our estimates.

Please view our disclosures on pages 13 - 15.

Recommendation and Valuation

Reiterate **Speculative Buy** rating. **$21.00 (12-month) price target**, increased from $18.50 based on a multiple of 20X applied to our discounted 2013 earnings estimate.

We believe investors will accord TIS a P/E valuation of 20X which applied to our earnings per share estimate of $1.13 for 2013 discounted to a twelve-month value of $1.06, gives us a price target of approximately $21.00 per share. Our discount factor of 7% was derived using the company's beta of 0.71.

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.

An article in Paper360° Magazine (The North American Tissue Business; March/April 2011) said that private label products have gained ground as consumers have sought cheaper alternatives for every day products. The biggest share gain has been seen in paper towels. This may be attributed to the larger price differentials between branded and private label products.

In July 2011, IBISWorld said that revenue from tissues is estimated to have decreased slightly as a share of the sanitary paper products industry revenue over the past five years. This is largely due to strong competition among major players, and the emergence of generic brands that sell similar products at much lower prices. Also, demand was hurt by the recession over 2008 and 2009, when customers substituted name brands with that of cheaper products. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 1.3% from 2011 to 2016.

Economic Outlook

In March 2012, The Federal Reserve Bank of the Tenth Federal Reserve District provided an economic outlook for the majority of the states that Orchids' sales efforts are focused on (Oklahoma region). The Fed said that the Oklahoma region's unemployment rate has risen in the second half of 2011 but was still quite low when compared to the rest of the country. The Oklahoma region's wages are catching up to those in surrounding states and the nation as a whole. The Fed said that home prices in this region have held up considerably better than in the nation as a whole and that consumer debt is also less burdensome than in the US. The Fed is forecasting solid GDP growth for the US in 2012 and said that purchasing managers in the Oklahoma region remain relatively optimistic about 2012 growth.

Market and Competition

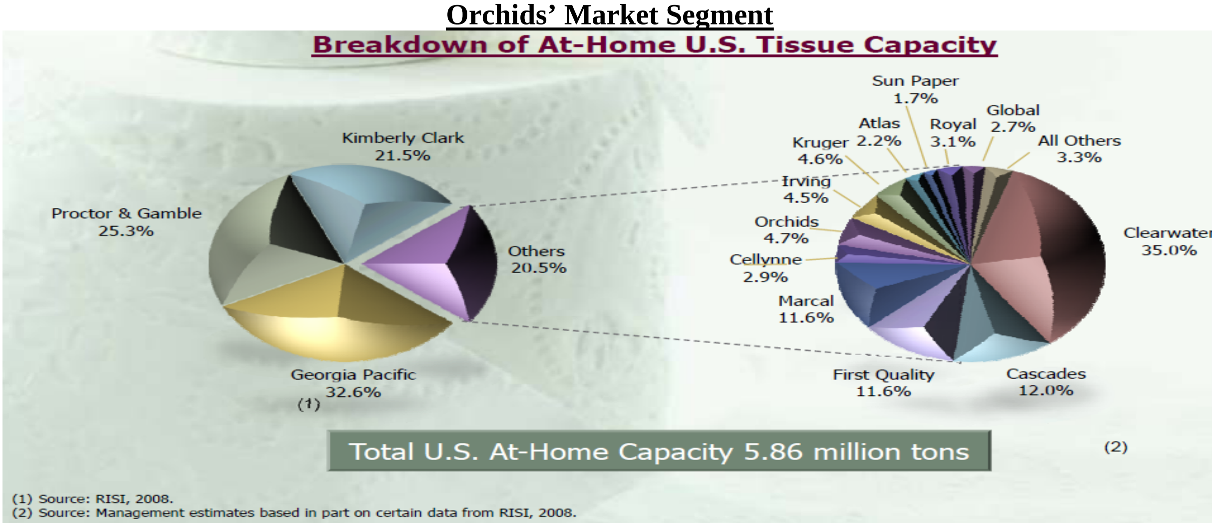
Industry research firm RISI breaks down the North American tissue market as follows: toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other (1%).

According to IBISWorld, the US tissue market is estimated to have grown to $4.5 billion in 2011. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 1.3% from 2011 to 2016.

Dollar and variety stores, Orchids' primary target markets, are estimated to have realized sales of $55.6 billion in 2011. IBISWorld projects dollar and variety stores' revenue growth averaging 2.9% 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, Clearwater Paper's Oklahoma City, Oklahoma plant, Georgia-Pacific's Muskogee, Oklahoma plant, Cascades' Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant are competitors who have plants in this region. We could only able to obtain financial information for Clearwater Paper and Cascades as they were the only direct competitors who were public. Clearwater Paper's 2011 revenue was $1.9 billion with gross margins of 11.7% while Cascades 2011 revenue was $3.6 billion with gross margins of 10.4%. These competitors lower gross margins when compared to Orchids' (16.3% in 2011) could lead them to expand in Orchids' geographic focus region. This could in turn lead to downward pressure on Orchids' pricing and margins.

Orchids' Market Segment



Source: Orchids Paper Products

4th Quarter and Fiscal 2011 Financial Results

Q4/11 sales of $25.7 million were up 15% from $22.3 million in Q4/10. Net income was $2.7 million or $0.35 per share versus net income of $0.9 million or $0.12 per share.

We estimated Q4/11 sales of $26.1 million and net income of $1.6 million or $0.21 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in Q4/11 increased 44% to $23.8 million from $16.6 million while parent roll (bulk tissue paper) sales decreased 67% to $1.9 million from $5.7 million. Total tons shipped decreased to 13,425 from 14,150, while paper costs decreased 9% to approximately $10.9 million from approximately $12.0 million. The overall net selling price per ton increased 22% to $1,912 from $1,573.

The increase in converted product sales in Q4/11 was due to a 47% increase in converted tonnage shipped and a 2% decrease in net selling price per ton. The increase in converted product tonnage shipments was primarily due to new product sales in the mid-tier market and increased demand from existing customers. Net sales of parent rolls decreased due to the increased requirements of the converting operations.

Gross margins increased to 21.8% in Q4/11 from 12.5% in Q4/10 primarily due to increased levels of higher margin converted product shipments, lower converting production costs, and lower raw material costs.

Selling, general and administrative (SG&A) expenses in Q4/11 increased to $1.9 million from $1.4 million primarily due to increased sales commissions due to the higher levels of converted product sales. Interest expense decreased to $104,000 from $259,000 due to lower debt levels and interest rates.

FY2011 sales increased 6% to $97.8 million from the comparable period in 2010. Net income was $6.2 million or $0.80 per share, up from net income of $5.9 million or $0.76 per share.

Converted product sales in FY2011 increased 11% to $81.9 million from $74.1 million while parent roll (bulk tissue paper) sales decreased 14% to $15.9 million from $18.4 million. Total tons shipped decreased to 55,514 from 56,663, while paper costs increased 5% to approximately $46.3 million from approximately $43.9 million. The overall net selling price per ton increased 8% to $1,762 from $1,633.

The increase in converted product sales in FY2011 was due to an 8% increase in converted tonnage shipped and a 2% increase in selling prices per ton. The increase in tonnage shipped was primarily due to new products sold to existing customers (mid-tier products) and increased demand for existing products. The decrease in parent roll sales was due to a 20% decrease in tonnage shipped partially offset by an 8% increase in selling prices per ton. The decrease in tonnage shipped was due to the increased requirements of the converting operations.

Gross margins decreased to 16.3% in FY2011 from 17.0% in FY2010 due to higher raw material costs and higher depreciation expense.

Selling, general and administrative (SG&A) expenses in FY2011 increased to $6.8 million from $6.6 million in FY2010 primarily due to increased bonuses and higher sales commissions. Interest expense decreased to $0.6 million from $0.9 million due to lower debt levels and interest rates.

Liquidity

Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2013. As of December 31, 2011, Orchids' cash balance was $4.3 million and short term investments totaled $2.0 million. Orchids has a debt/equity ratio of 0.2 versus 1.0 for the paper products industry.

Cash earnings of $15.9 million and a $294,000 decrease in working capital resulted in $15.7 million cash from operations in FY2011. The changes in working capital were primarily driven by a $2.4 million decrease in taxes receivable and a $346,000 increase in accrued liabilities, offset in part by a $1.7 million decrease in accounts payable and a $0.8 million increase in accounts receivable.

The company received proceeds from the sale of investment securities of $7.5 million which was partially offset by capital expenditures of $5.5 million resulting in $2.0 million cash from investing. A net reduction in debt of $10.0 million, $3.8 million dividend payments, and $303,000 proceeds from the exercise of stock options, partially offset cash from operations of $15.7 million and cash from investing of $2.0 million resulting in a $4.2 million increase in cash to $4.3 million at the end of FY2011.

Credit Facility

In 2011, Orchids paid off the remaining unmatured loans under its existing credit facility which totaled $17.5 million and entered into a new $36 million credit agreement with JP Morgan Chase consisting of: an $18.0 million revolving credit line (due April 2014); ($0.0 million outstanding at December 31, 2011); a $10.8 million real estate term loan with a ten-year term (due April 2021) and amortized as if it had a 25-year life ($10.5 million outstanding at December 31, 2011); and a $7.2 million machinery and equipment term loan with a seven-year term (due April 2018) ($6.8 million outstanding at December 31, 2011).

All loans have a floating interest rate of either the prime rate plus 25 to minus 50 basis points, or LIBOR plus 175 to 265 basis points (based on the ratio of funded debt to EBITDA), depending on the company's discretion. The credit agreement contains covenants that require Orchids to maintain a specific funded-debt-to EBITDA ratio, fixed charge coverage ratio, and a quarterly tangible net worth. As of December 31, 2011, the company was in compliance with these covenants.

Projections

We project an 8% increase in converted product tonnage in 2012 as there should be a full year's contribution from the orders for 700,000 cases annually. However, we anticipate only a 2% increase in tonnage shipped for 2013, this rate of growth is consistent with the rate of growth realized in 2011 when the 700,000 annual case orders are excluded. Selling prices (converted and parent roll) are projected to increase by 1% annually through our forecast horizon, consistent with IBISWorld projections for paper manufacturer selling price increases through 2017. These factors should result in revenue of $102.9 million in 2012 and $105.0 million in 2013.

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue
2011			
Converted	39,300	$ 2,084	$ 81,901,200
Parent Roll	16,200	$ 982	$ 15,908,400
Total	55,500	$ 1,762	$ 97,809,600
2012			
Converted	42,500	$ 2,105	$ 89,462,500
Parent Roll	13,500	$ 992	$ 13,392,000
Total	56,000	$ 1,837	$ 102,854,500
2013			
Converted	43,500	$ 2,126	$ 92,481,000
Parent Roll	12,500	$ 1,002	$ 12,525,000
Total	56,000	$ 1,875	$ 105,006,000

Source: Taglich Brothers estimates

Orchids' results over the past few years show over 80% of cost of sales as being variable with the cost of paper averaging 56% of total cost of sales and other variable costs (packaging supplies, direct labor, freight, etc.) averaging 28%. Fixed costs (overhead, depreciation) have averaged approximately 16% of total cost of sales in this time frame.

The following table shows our estimated costs per ton (variable and fixed) over the past three years and our estimates for 2012 and 2013.

COGS (in thousands $) Model

	2009A	2010A	2011A	2012E	2013E
Variable cost (paper)	$ 36,497	$ 43,947	$ 46,337	$ 46,760	$ 46,760
Est. variable cost (other)	$ 20,817	$ 20,334	$ 21,373	$ 22,400	$ 22,850
Total est. variable costs	$ 57,314	$ 64,281	$ 67,710	$ 69,160	$ 69,610
Est. fixed cost (overhead)	$ 6,939	$ 6,778	$ 7,124	$ 7,124	$ 7,124
Fixed cost (depreciation)	$ 3,683	$ 5,693	$ 7,052	$ 7,000	$ 7,000
Total est. fixed costs	$ 10,622	$ 12,471	$ 14,176	$ 14,124	$ 14,124
COGS	$ 67,936	$ 76,752	$ 81,886	$ 83,284	$ 83,734
Tons shipped	52,355	56,663	55,514	56,000	56,000
Variable (paper) costs/ton	$ 697	$ 776	$ 835	$ 835	$ 835
Est. variable (other) cost/ton	$ 398	$ 359	$ 385	$ 400	$ 408
Total variable costs/ton	$ 1,095	$ 1,134	$ 1,220	$ 1,235	$ 1,243
Fixed costs/ton	$ 203	$ 220	$ 255	$ 252	$ 252
Total COGS/ton	$ 1,298	$ 1,355	$ 1,475	$ 1,487	$ 1,495
Gross profit	$ 28,027	$ 15,752	$ 15,957	$ 19,654	$ 21,315
Gross margin	29.2%	17.0%	16.3%	19.1%	20.3%

Source: Company filings and Taglich Brothers estimates

Although paper costs have decreased since the peak in Q3/11 (down 11% to $778/ton in Q4/11), we are estimating the cost per ton to remain at the FY11 level of $835/ton through our forecast horizon given a moderately improving economy. We project other variable costs to increase in 2012 and 2013 but remain at 21.8% of sales, consistent with the past few years. Fixed costs are projected to remain near current levels through our forecast horizon.

We project 2012 revenue of $102.9 million and net income of $7.8 million or $1.00 per share. We previously projected 2012 revenue of $104.5 million and net income of $7.1 million or $0.92 per share. Although our revenue estimates are slightly lower, the increase in our earnings estimates stems from a combination of increased shipments of higher margin converted products (42,500 tons versus 41,000 tons previously) and lower cost of sales.

The company secured new converted product business despite ongoing competitive pressures in 2011. Also, the doubling of its sales force should help to expand converted product sales. The increased converted product shipments and lower cost of sales have resulted in an increase in our gross margin estimates to 19.1% (previously 16.3%).

SG&A expenses are projected to increase to $7.0 million in 2012 (of which approximately 18% or $1.3 million of SG&A expenses are commission related). The tax rate is estimated at 34% based on guidance. Days sales outstanding and inventory turnover are projected to remain at 26 and 10 respectively.

For 2012 we are projecting cash earnings of $17.3 million, minimal changes in working capital, and cash from operations of approximately $17.3 million. Cash from operations should cover $5.0 million of capital expenditures, a $5.0 million net pay down of debt, and $6.0 million in dividends, increasing cash by $1.3 million to $5.6 million at December 31, 2012.

We project 2013 revenue of $105.0 million and net income of $8.8 million or $1.13 per share. As mentioned earlier, our revenue projection is based on 2% growth of converted product shipments. Increased sales of higher margin converted products should result in gross margins of 20.3%

SG&A expenses are projected to increase to $7.2 million in 2013 (of which approximately 18% or $1.3 million of SG&A expenses are commission related). The tax rate is estimated at 34. Days sales outstanding and inventory turnover are projected to remain at 26 and 10 respectively.

For 2013 we are projecting cash earnings of $16.1 million, minimal changes in working capital, and cash from operations of $15.9 million. Cash from operations should cover $5.0 million of capital expenditures, a $5.0 million net pay down of debt, and $6.0 million in dividends, decreasing cash by $100,000 to $5.5 million at December 31, 2013.

Capacity

Orchids' warehouse and expanded converting line were completed and started operating in 2010. 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 tons of parent rolls in the outside market to augment its current 56,000 ton parent roll capacity. The additional converting capacity will support over a 50% increase in annual production.

We believe Orchids could potentially earn gross margins of 21.2% at 80% conversion, 22.6% at 90% conversion, and 24% at full conversion of parent rolls. This should result in net income of approximately $14.4 million or $1.86 per share on revenues of $120 million at full conversion of current parent roll capacity.

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. However, over the past two years, competitors have moved into Orchids' operating region (within Orchids' focused 500-mile sales area). This increased competition in the company's focused region has reduced its competitive cost advantage and lowered margins. This can be evidenced in part by looking at the decline in Orchids' gross margins over the past two years. Orchids' gross margins declined from 29.2% in 2009 to 17.0% in 2010, and 16.3% in 2011.

Risks

Customer concentration
Three customers (Dollar General, Family Dollar, and Wal-Mart) accounted for approximately 72% of converted product sales in 2011. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition
Competitors have penetrated Orchids' operating region. More intense competition in the company's focused region has reduced some of its competitive cost advantages and lowered margins due to pressure on selling prices.

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 with current bargaining agreements set to expire in June 2012 (converting facility workers) and February 2015 (paper mill workers). 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

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

Microcap stocks typically have small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 6.0 million shares in the float with an average daily volume of approximately 16,000 shares.

Miscellaneous risks

The company's financial results and equity values are subject to other risks, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	2009A	2010A	2011A	2012E	2013E
Cash	1,232	142	4,297	5,564	5,465
Accounts receivable	6,750	6,155	6,939	7,298	7,447
Inventories	7,569	7,595	7,811	7,941	7,983
Short term investments	18,509	9,518	2,019	2,019	2,019
Income taxes receivable	-	3,952	285	-	-
Prepaid expenses	497	538	530	564	583
Other	-	-	338	-	-
Deferred income taxes	547	790	410	722	776
Total current assets	35,104	28,690	22,629	24,108	24,273
Property, plant and equipment	72,691	93,805	92,285	90,285	88,285
Deferred debt issuance costs	104	76	54	54	54
Total Assets	**107,899**	**122,571**	**114,968**	**114,447**	**112,612**
Accounts payable	4,049	5,250	3,520	3,578	3,597
Accrued liabilities	3,118	2,269	2,615	2,750	2,806
Current portion of long-term debt	3,742	10,742	1,152	1,152	1,152
Total current liabilities	10,909	18,261	7,287	7,481	7,556
Long-term debt	19,533	16,615	16,231	11,231	6,231
Deferred income taxes	14,337	18,099	18,801	21,000	21,000
Total liabilities	**44,779**	**52,975**	**42,319**	**39,712**	**34,787**
Total stockholders' equity	**63,120**	**69,596**	**72,649**	**74,735**	**77,825**
Total liabilities & stockholders' equity	**107,899**	**122,571**	**114,968**	**114,447**	**112,612**

Source: Company filings and Taglich Brothers' estimates

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

	2009A	2010A	2011A	2012E	2013E
Net sales	95,963	92,504	97,843	102,900	105,000
Cost of sales	67,936	76,752	81,886	83,246	83,685
Gross profit	28,027	15,752	15,957	19,654	21,315
SG&A expenses	7,343	6,618	6,810	7,000	7,200
Operating income (loss)	20,684	9,134	9,147	12,654	14,115
Interest expense	692	934	647	400	400
Other (income) expense	(24)	(65)	(42)	(60)	(60)
Income (loss) before taxes	20,016	8,265	8,542	12,314	13,775
Income tax expense (benefit)	6,464	2,351	2,344	4,537	5,004
Net income (loss)	13,552	5,914	6,198	7,777	8,771
EPS	1.89	0.76	0.80	1.00	1.13
Shares Outstanding	7,177	7,755	7,722	7,740	7,740
Margin Analysis					
Gross margin	29.2%	17.0%	16.3%	19.1%	20.3%
SG&A expenses	7.7%	7.2%	7.0%	6.8%	6.9%
Operating margin	21.6%	9.9%	9.3%	12.3%	13.4%
Net margin	14.1%	6.4%	6.3%	7.6%	8.4%
Year / Year Growth					
Total Revenues	6.4%	(3.6%)	5.8%	5.2%	2.0%
Net Income	161.1%	(56.4%)	4.8%	25.5%	12.8%
EPS	138.0%	(59.6%)	5.3%	25.2%	12.8%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2011, 2012, and 2013
(in thousands $)

	3/11A	6/11A	9/11A	12/11A	2011A	3/12E	6/12E	9/12E	12/12E	2012E	3/13E	6/13E	9/13E	12/13E	2013E
Net sales	22,675	23,383	26,110	25,675	97,843	25,650	25,700	25,750	25,800	102,900	26,100	26,200	26,300	26,400	105,000
Cost of sales	19,967	19,666	22,174	20,079	81,886	20,751	20,791	20,832	20,872	83,246	20,802	20,881	20,961	21,041	83,685
Gross profit	2,708	3,717	3,936	5,596	15,957	4,899	4,909	4,918	4,928	19,654	5,298	5,319	5,339	5,359	21,315
SG&A expenses	1,580	1,816	1,508	1,906	6,810	1,750	1,750	1,750	1,750	7,000	1,800	1,800	1,800	1,800	7,200
Operating income (loss)	1,128	1,901	2,428	3,690	9,147	3,149	3,159	3,168	3,178	12,654	3,498	3,519	3,539	3,559	14,115
Interest expense	249	191	103	104	647	100	100	100	100	400	100	100	100	100	400
Other (income) expense	(9)	(7)	(17)	(9)	(42)	(15)	(15)	(15)	(15)	(60)	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	888	1,717	2,342	3,595	8,542	3,064	3,074	3,083	3,093	12,314	3,413	3,434	3,454	3,474	13,775
Income tax expense (benefit)	268	520	695	861	2,344	1,129	1,133	1,136	1,139	4,537	1,240	1,247	1,255	1,262	5,004
Net income (loss)	620	1,197	1,647	2,734	6,198	1,935	1,941	1,947	1,954	7,777	2,173	2,187	2,199	2,212	8,771
EPS	0.08	0.16	0.21	0.35	0.80	0.25	0.25	0.25	0.25	1.00	0.28	0.28	0.28	0.29	1.13
Shares Outstanding	7,713	7,706	7,733	7,775	7,722	7,740	7,740	7,740	7,740	7,740	7,740	7,740	7,740	7,740	7,740
Margin Analysis															
Gross margin	11.9%	15.9%	15.1%	21.8%	16.3%	19.1%	19.1%	19.1%	19.1%	19.1%	20.3%	20.3%	20.3%	20.3%	20.3%
SG&A expenses	7.0%	7.8%	5.8%	7.4%	7.0%	6.8%	6.8%	6.8%	6.8%	6.8%	6.9%	6.9%	6.8%	6.8%	6.9%
Operating margin	5.0%	8.1%	9.3%	14.4%	9.3%	12.3%	12.3%	12.3%	12.3%	12.3%	13.4%	13.4%	13.5%	13.5%	13.4%
Net margin	2.7%	5.1%	6.3%	10.6%	6.3%	7.5%	7.6%	7.6%	7.6%	7.6%	8.3%	8.3%	8.4%	8.4%	8.4%
Year / Year Growth															
Total Revenues	7.8%	(5.3%)	6.5%	15.4%	5.8%	13.1%	9.9%	(1.4%)	0.5%	5.2%	1.8%	1.9%	2.1%	2.3%	2.0%
Net Income	(54.4%)	(44.9%)	14.2%	190.9%	4.8%	212.1%	62.1%	18.2%	(28.5%)	25.5%	12.3%	12.7%	12.9%	13.2%	12.8%
EPS	(54.3%)	(44.4%)	18.3%	189.6%	5.3%	211.0%	61.4%	18.1%	(28.2%)	25.2%	12.3%	12.7%	12.9%	13.2%	12.8%

Source: Company filings and Taglich Brothers' estimates

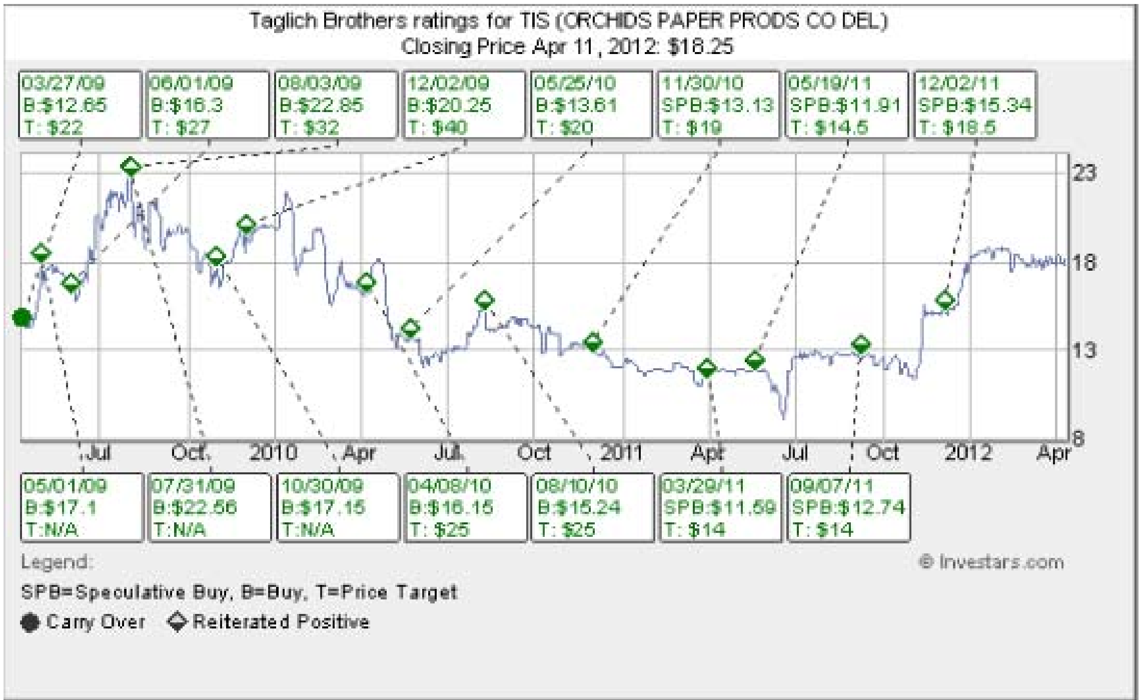
Orchids Paper Products Company

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

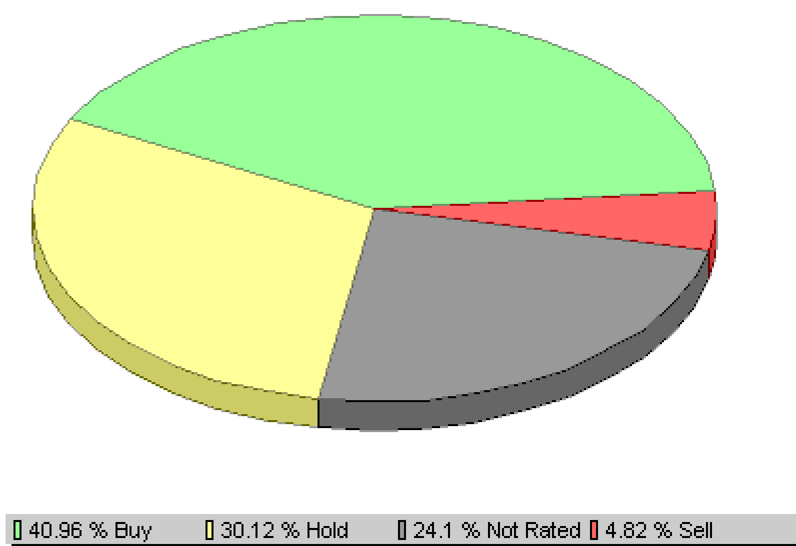
	2009A	2010A	2011A	2012E	2013E
Net income(loss)	13,552	5,914	6,198	7,777	8,771
Depreciation and amortization	3,708	5,725	7,132	7,000	7,000
Provision for doubful accounts	60	(34)	(30)	-	-
Deferred income taxes	4,774	3,519	2,359	2,199	-
Stock based compensation	603	562	290	309	319
Changes in assets and liabilities					
Accounts receivable	(296)	629	(754)	(359)	(149)
Inventories	(1,316)	(26)	(216)	(130)	(42)
Prepaid expenses	(98)	(41)	8	(34)	(19)
Income taxes receivable	-	(3,952)	2,390	(27)	(54)
Other current assets	-	-	(338)	338	-
Accounts payable	(650)	1,201	(1,730)	58	19
Acrrued liabilities	535	(849)	346	135	56
Net Cash Provided by (Used in) Operations	**20,872**	**12,648**	**15,655**	**17,267**	**15,901**
Proceeds from the sale of investment securities	3,993	8,991	7,500	-	-
Purchase of investment securities	(22,502)	-	-	-	-
Purchase of property and equipment	(15,711)	(26,786)	(5,531)	(5,000)	(5,000)
Net Cash Provided by (Used in) Investing	**(34,220)**	**(17,795)**	**1,969**	**(5,000)**	**(5,000)**
Proceeds from issuance of stock	14,847	-	-	-	-
Borrowings under construction loan	3,756	5,197	-	-	-
Repayments on construction loan	-	-	-	-	-
Borrowings on long-term debt	-	-	18,021	-	-
Principal payments on long-term debt	(3,059)	(3,787)	(2,007)	(5,000)	(5,000)
Repayment of long-term debt at maturity	-	-	(5,878)	-	-
Repayment of long-term debt prior to maturity	-	-	(17,439)	-	-
Net borrowings (repayments) on revolving credit line	(1,487)	2,672	(2,672)	-	-
Proceeds from the exercise of warrants attached to debentures	286	-	-	-	-
Proceeds from the exercise of stock options	269	-	303	-	-
Excess tax benefit of stock options exercised	-	-	15	-	-
Deferred debt issuance cost	(43)	(25)	(59)	-	-
Dividends paid	-	-	(3,753)	(6,000)	(6,000)
Net Cash Provided by (Used in) Financing	**14,569**	**4,057**	**(13,469)**	**(11,000)**	**(11,000)**
Net Change in Cash	**1,221**	**(1,090)**	**4,155**	**1,267**	**(99)**
Cash - Beginning of Period	**11**	**1,232**	**142**	**4,297**	**5,564**
Cash - End of Period	**1,232**	**142**	**4,297**	**5,564**	**5,465**
Cash Flow from Operations	20,872	12,648	15,655	17,267	15,901
Capital Expenditures	(15,711)	(26,786)	(5,531)	(5,000)	(5,000)
Free Cash Flow	5,161	(14,138)	10,124	12,267	10,901

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 436,135 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 419,254 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 162,900 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 8,712 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.

Dropping Coverage

We have discontinued research coverage due to acquisition of the company, termination of research services, non-payment for such services or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.