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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
May 19, 2011

TIS $11.91 — (NYSE AMEX)

	2009A	2010A	2011E	2012E
Revenues (millions)	$96.0	$92.5	$93.6	$96.6
Earnings per share	$1.89	$0.76	$0.65	$0.95

52-Week range	$11.03 – $15.91	Fiscal year ends:	December
Shares outstanding a/o 4/30/11	7.5 million	Revenue per share (TTM)	$12.15
Approximate float	5.6 million	Price/Sales (TTM)	1.0X
Market capitalization	$89 million	Price/Sales (FY2012)E	1.0X
Tangible book value/share	$9.29	Price/Earnings (TTM)	17.8X
Price/tangible book value	1.3X	Price/Earnings (FY2012)E	12.5X
Annual dividend	0.40	Dividend Yield	3.4%

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:

We are reiterating our Speculative Buy rating for Orchids Paper Products (NYSE AMEX: TIS) and raising our twelve-month price target to $14.50 per share (from $14.00) based on our increased 2012 EPS forecast.

The global consulting and engineering firm Poyry Management Consulting forecasts private label tissue products such as Orchids' to capture market share. If Poyry's expectations come to fruition, this should bode well for Orchids' sales as its products are primarily sold under its customers' private labels.

The company recently secured new converted product business despite ongoing competitive pressures. A cost competitive product and a growing economy should drive sales gains into 2012. Several competitors have recently announced plans to increase their selling prices, potentially enabling Orchids to increase prices accordingly.

We project 2011 revenue of $93.6 million and EPS of $0.65. We previously projected 2011 revenue of $91.2 million and EPS of $0.69. The increase in our revenue estimate is due to better than expected sales in Q1/11 and a 0.5% increase in total selling prices from current levels. The decrease in our EPS estimate stems from a higher effective tax rate than originally anticipated (30% versus 25%).

We project 2012 revenue of $96.6 million and EPS of $0.95. We previously projected 2012 revenue of $94.2 million and EPS of $0.90. The increase in our estimates is due to minimally increased selling prices and increased margins.

Orchids reported Q1/11 sales increased 8% to $22.7 million. Q1/11 EPS was $0.08 versus $0.18 in Q1/10. We projected Q1/11 sales of $22.0 million and EPS of $0.11.

Please view our disclosures on pages 13 - 15.

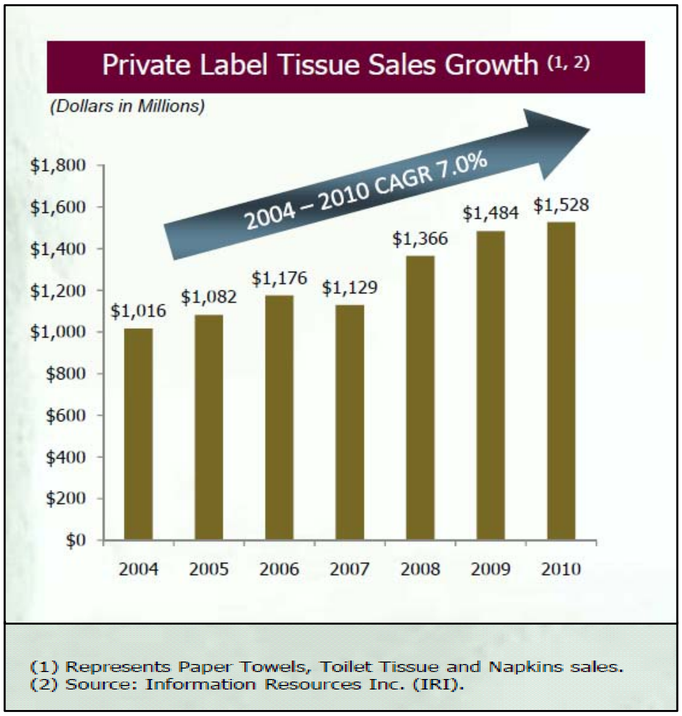
Recommendation and Valuation

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

The company's trailing P/E multiple has varied widely since 2005. We believe investors will accord TIS a P/E valuation of 16X which applied to our earnings per share estimate of $0.95 for 2012 and discounting this to a twelve-month value using a discount factor of 6.5% gives us a **price target of approximately $14.50 per share**. We derived our discount factor using Orchids' beta of 0.65.

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.

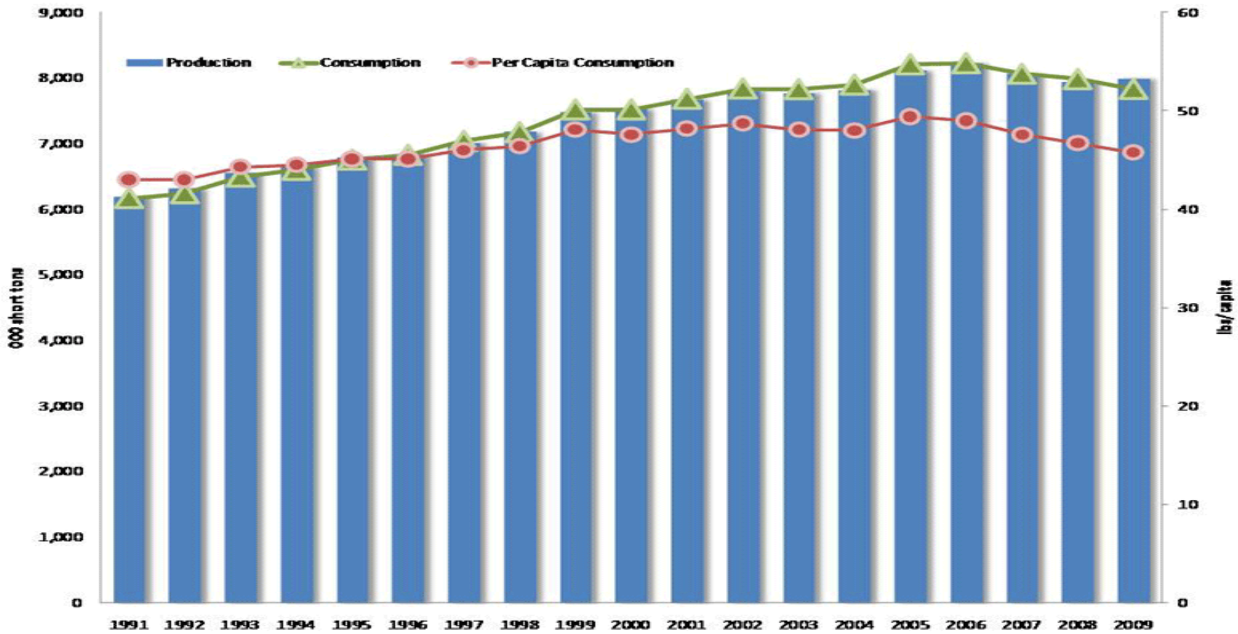


The company's products are sold primarily under its customers' private labels and, to a lesser extent, under brand names such as Colortex® and Velvet®. Private label tissue sales in the industry have grown at a compound annual growth rate of 7.0% from 2004 to 2010 (see right). Branded tissue sales grew at a compound annual growth rate of 1.9% over the same period.

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.

In 2010, the global consulting and engineering firm Poyry Management Consulting said the tissue paper industry in North America has historically outperformed other paper grades, achieving an average long-term growth rate of about 2%/year between 1990 and 2009, but with a maturing rate of 1.6% for 2001-2009. Tissue paper consumption has been impacted by economic cycles, with stagnating growth in 2002-2003 and most recently in 2007-2009. The long-term outlook for tissue demand is steady, supported by underlying growth in fundamental drivers such as population, household formation, and GDP. Poyry expects North American tissue demand to rebound, growing between 0.7% and 1.8% annually over the next five years.

North American Tissue Industry



Source: Naylornetwork.com

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

In March 2011, IBISWorld said that revenue from tissues are 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 1.4% from 2011 to 2016.

Outlook

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

The new converting line's capacity of four million cases per year equates to approximately 26,000 additional tons of converted product. Orchid's total converted capacity with the new line should be approximately 66,000 tons annually. This means that at full capacity, the company would have to purchase approximately 10,000 parent rolls in the outside market to augment its current 56,000 ton parent roll capacity. The additional converting capacity will support over a 50% increase in annual production.

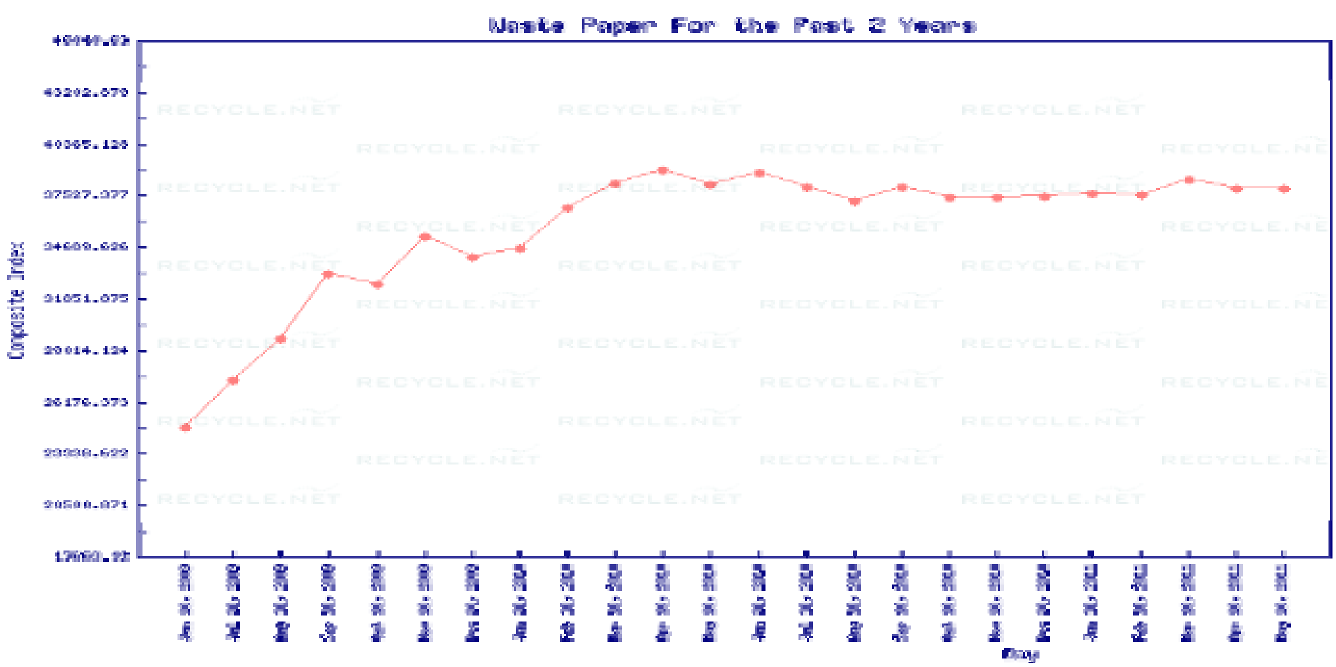
Higher quality product should improve penetration of the dollar store sector. However, this is not likely to impact sales until the second quarter of 2011 given the time required to clear existing product from shelves. Higher tier products are not expected to displace lower tier products. A purchasing agent for a top-tier dollar store indicated that Orchids offers a better quality lower tier product than a direct competitor. This should support our view that Orchids will maintain its market share of lower tier business. We do not have any comparisons yet of Orchids' higher tier products with that of competitors.

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

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

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 total capacity. However, based on the current competitive environment, we project only modest increases in converted sales over the next two years.

Significant increases in waste paper prices and aggressive pricing of competitors' branded products have compressed Orchids' margins. The following chart shows how waste paper prices have remained relatively high over the past year. We believe a gradually improving economy will keep demand for waste paper high, keeping waste paper prices at around current levels.



Source: Paper Fiber Network

Market and Competition

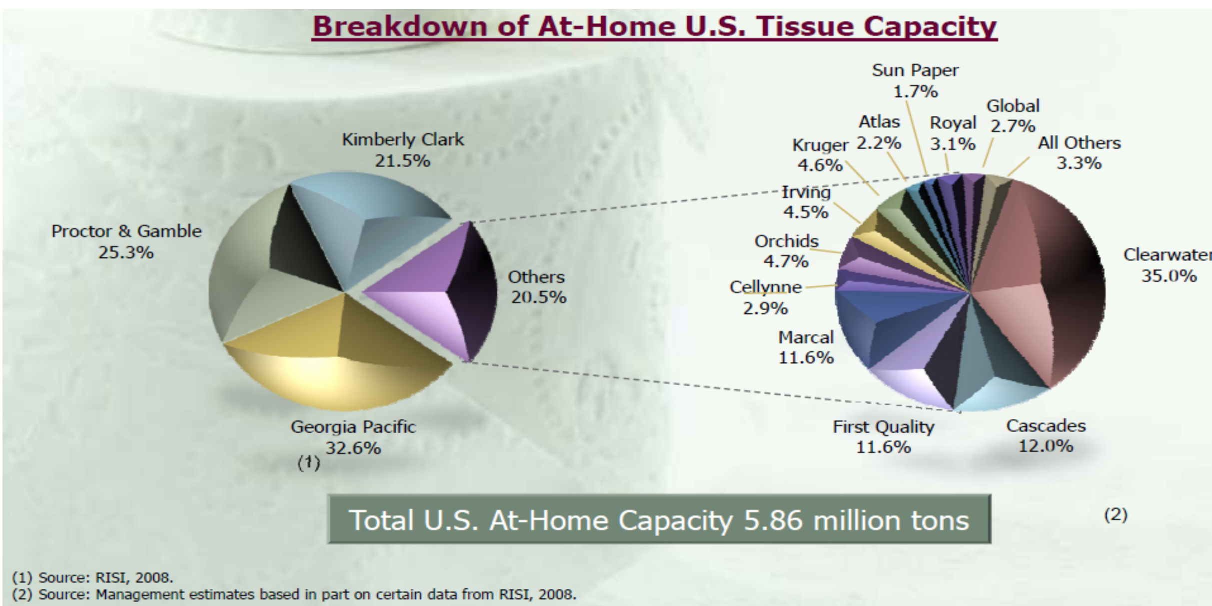
Industry research firm RISI breaks down the North American tissue market as follows: toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other (1%).

Based on the IBISWorlds's projected growth of 2.8% in 2011 for the industry, we project the US tissue market will grow to $4.5 billion in 2011 from $4.4 billion in 2010. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 1.4% from 2011 to 2016.

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

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

<u>Orchids' Market Segment</u>



Source: Orchids Paper Products

1st Quarter Financial Results

Q1/11 sales of $22.7 million were up 8% from $21.0 million in Q1/10. Net income was $0.6 million or $0.08 per share versus net income of $1.4 million or $0.18 per share.

We estimated Q1/11 sales of $22.0 million and net income of $0.9 million or $0.11 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 2% to $18.0 million from $17.6 million while parent roll (bulk tissue paper) sales increased 38% to $4.7 million from $3.4 million. Total tons shipped increased to 13,628 from 13,179, while paper costs increased 6% to approximately $11.2 million from approximately $10.5 million. The overall net selling price per ton increased 4% to $1,664 from $1,597.

The increase in converted product sales was due to a 7% increase in net selling prices which was mostly offset by a 5% decrease in converted tonnage shipped. Net sales of parent rolls increased due to a 21% increase in tonnage shipped and a 14% increase in selling prices. Low shipments of converted products allowed the company to sell more parent rolls.

Although the overall selling price per ton increased 4% to $1,664 from $1.597, gross margins decreased to 11.9% from 18.4% due to higher raw material costs, higher depreciation expense, higher per unit converting costs, and a tilt in product mix toward lower margin parent rolls.

Selling, general and administrative (SG&A) expenses decreased to $1.6 million from $1.7 million due to lower incentive bonuses. Interest expense increased to $249,000 from $215,000 due to higher debt balances ($24.3 million in Q1/11 versus $22.4 million in Q1/10).

Liquidity

Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations in the coming year. Although Orchids' cash balance was only $5,000 as of March 31, 2011, short term investments totaled $9.5 million. Orchids has a debt/equity ratio of 0.3. This compares to the paper products industry's debt/equity ratio of 1.0. As the company continues to pay down debt, this ratio should improve.

Cash earnings of $2.7 million and a $1.7 million decrease in working capital resulted in $4.4 million cash from operations in the first three months of 2011. The changes in working capital were primarily driven by a $2.4 million decrease in taxes receivable, and a $1.2 million increase in accrued liabilities, offset by a $1.1 million decrease in accounts payable and a $0.6 million increase in accounts receivable.

Capital expenditures of $0.7 million, debt repayments of $3.1 million, and $0.7 million dividend payments exceeded cash from operations of $4.4 million and reduced cash by $137,000 to $5,000 at the end of Q1/11.

Orchids has the following financing facilities available: an $18.0 million revolving credit line (due April 2014); ($0.0 million outstanding at April 25, 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 ($10.8 million outstanding at April 25, 2011); and a $7.2 million machinery and equipment term loan with a seven-year term (due April 2018) ($7.2 million outstanding at April 25, 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 March 31, 2011, the company was in compliance with these covenants.

Projections

Our revenue and gross margin projections through 2012 are shown in the table on the following page. 2010 revenue, total COGS, total gross profit, total tons shipped, and total selling price/ton are actual values. The remaining are Taglich Brothers estimates.

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

2010

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

2011

	Tons Shipped	Selling Price/Ton	Revenue	COGS	COGS/Ton	Gross Profit	GM
Converted	37,800	$ 2,050	$ 77,490,000	$ 64,638,000	$ 1,710	$ 12,852,000	16.6%
Parent Roll	18,200	$ 883	$ 16,070,600	$ 14,632,800	$ 804	$ 1,437,800	8.9%
Total	56,000	$ 1,671	$ 93,560,600	$ 79,270,800	$ 1,416	$ 14,289,800	15.3%

2012

	Tons Shipped	Selling Price/Ton	Revenue	COGS	COGS/Ton	Gross Profit	GM
Converted	40,000	$ 2,060	$ 82,400,000	$ 66,400,000	$ 1,660	$ 16,000,000	19.4%
Parent Roll	16,000	$ 888	$ 14,208,000	$ 12,928,000	$ 808	$ 1,280,000	9.0%
Total	56,000	$ 1,725	$ 96,608,000	$ 79,328,000	$ 1,417	$ 17,280,000	17.9%

We project 2011 revenue of $93.6 million and net income of $5.0 million or $0.65 per diluted share. We previously projected 2011 revenue of $91.2 million and net income of $5.3 million or $0.69 per diluted share. The increase in our revenue estimate is due to better than expected sales in Q1/11 and higher projected selling prices. Several competitors have recently announced plans to increase their selling prices which should allow Orchids to increase prices accordingly. Although competitors did not mention the magnitude of their intended price increases, based on the overall easing in the competitive pricing environment, we are projecting Orchids' total selling prices to increase slightly (by 1%) from current prices ($1,664/ton in Q1/11). This has resulted in an increase in our 2011 gross margins to 15.3% from 15.1%. The decrease in our EPS estimate stems from a higher effective tax rate in 2011 than originally anticipated (30% versus 25%).

Our 2011 estimates are based on converted product sales starting to ramp in the second quarter. Orchids recently announced that it received orders for approximately 0.7 million cases on an annual basis with shipping expected to start in the second quarter. This represents an increase in converted product shipments of approximately 12% annually based on the 5.8 million cases that were manufactured in 2010. We project the company will continue to keep its SG&A expenses under control (6.9% of sales) in 2011.

For 2011 we project cash earnings of $10.2 million and a reduction in working capital of $4.0 million will result in cash from operations of approximately $14.1 million. Cash from operations and $5.9 million proceeds from the sale of investment securities will cover capital expenditures of $3.5 million, a $13.4 million net pay down of debt, and $3.0 million in dividends. These items should result is a $131,000 net increase in cash to $273,000. In February 2011, the company initiated a quarterly cash dividend of $0.10 per share.

We project 2012 revenue of $96.6 million and net income of $7.3 million or $0.95 per diluted share. We previously projected 2012 revenue of $94.2 million and net income of $7.1 million or $0.90 per diluted share. We have raised converted and parent roll selling prices minimally (0.5%) in 2012. The increased selling prices combined with increased overhead coverage should result in gross margins of 17.9% (previously 16.9%). SG&A expenses are projected to increase to $6.7 million in 2012 and the tax rate is estimated at 30% based on the current effective tax rate.

Our 2012 estimates are based on higher margin converted product sales growth. The company recently secured new converted product business despite ongoing competitive pressures.

For 2012 we are projecting cash earnings of $17.0 million. A $0.2 million increase in working capital should result in cash from operations of approximately $16.8 million. Cash from operations should cover $3.5 million of capital expenditures, a $10.0 million net pay down of debt, and $3.0 million in dividends, increasing cash by $316,000 to $0.6 million.

Risks

Customer concentration

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

Competition

As mentioned earlier, competitors moved into Orchids' operating region. The increased presence of competition in the company's focused region has reduced some of its competitive cost advantages and lowered margins due to pressure on selling prices.

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

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

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

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

Labor interruptions

All of Orchids' hourly paid employees are represented by a labor union 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 5.6 million shares in the float with an average daily volume of approximately 8,000 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 $)

	2008A	2009A	2010A	3/11A	2011E	2012E
Current assets:						
Cash	11	1,232	142	5	273	590
Accounts receivable	6,514	6,750	6,155	6,757	6,226	6,428
Inventories	6,253	7,569	7,595	7,853	7,846	7,852
Short term investments	-	18,509	9,518	9,520	3,620	3,620
Income taxes receivable	-	-	3,952	-	-	-
Prepaid expenses	399	497	538	521	544	562
Deferred income taxes	557	547	790	2,004	685	999
Total current assets	13,734	35,104	28,690	26,660	19,195	20,050
Property, plant and equipment	60,659	72,691	93,805	92,786	90,305	86,805
Deferred debt issuance costs	89	104	76	60	60	60
Total Assets	**74,482**	**107,899**	**122,571**	**119,506**	**109,560**	**106,915**
Current liabilities:						
Accounts payable	4,699	4,049	5,250	4,194	5,424	5,428
Accrued liabilities	2,584	3,118	2,269	3,508	2,295	2,369
Current portion of long-term debt	2,998	3,742	10,742	8,003	4,000	2,000
Total current liabilities	10,281	10,909	18,261	15,705	11,719	9,797
Long-term debt	21,067	19,533	16,615	16,301	10,000	2,000
Deferred income taxes	9,572	14,337	18,099	17,952	16,200	19,200
Total liabilities	**40,920**	**44,779**	**52,975**	**49,958**	**37,919**	**30,997**
Total stockholders' equity	**33,562**	**63,120**	**69,596**	**69,548**	**71,641**	**75,918**
Total liabilities & stockholders' equity	**74,482**	**107,899**	**122,571**	**119,506**	**109,560**	**106,915**

Source: Company filings and Taglich Brothers' estimates

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

	2008A	2009A	2010A	2011E	2012E
Net sales	90,202	95,963	92,504	93,575	96,600
Cost of sales	75,196	67,936	76,752	79,293	79,349
Gross profit	15,006	28,027	15,752	14,282	17,251
SG&A expenses	6,259	7,343	6,618	6,470	6,660
Operating income (loss)	8,747	20,684	9,134	7,812	10,591
Interest expense	1,361	692	934	699	200
Other (income) expense	(10)	(24)	(65)	(54)	(60)
Income (loss) before taxes	7,396	20,016	8,265	7,167	10,451
Income tax expense (benefit)	2,205	6,464	2,351	2,151	3,135
Net income (loss)	5,191	13,552	5,914	5,016	7,316
Diluted EPS	0.79	1.89	0.76	0.65	0.95
Diluted Shares Outstanding	6,542	7,177	7,755	7,715	7,715
Margin Analysis					
Gross margin	16.6%	29.2%	17.0%	15.3%	17.9%
SG&A expenses	6.9%	7.7%	7.2%	6.9%	6.9%
Operating margin	9.7%	21.6%	9.9%	8.3%	11.0%
Net margin	5.8%	14.1%	6.4%	5.4%	7.6%
Year / Year Growth					
Total Revenues	20.8%	6.4%	-3.6%	1.2%	3.2%
Net Income	99.8%	161.1%	-56.4%	-15.2%	45.9%
EPS	97.5%	138.0%	-59.6%	-14.7%	45.9%

Source: Company filings and Taglich Brothers' estimates

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

	3/10A	6/10A	9/10A	12/10A	2010A	3/11A	6/11E	9/11E	12/11E	2011E	3/12E	6/12E	9/12E	12/12E	2012E
Net sales	21,040	24,685	24,523	22,256	92,504	22,675	23,200	23,700	24,000	93,575	23,400	23,950	24,450	24,800	96,600
Cost of sales	17,179	19,610	20,494	19,469	76,752	19,967	20,022	19,553	19,752	79,293	19,352	19,711	20,025	20,262	79,349
Gross profit	3,861	5,075	4,029	2,787	15,752	2,708	3,178	4,148	4,248	14,282	4,048	4,239	4,425	4,538	17,251
SG&A expenses	1,735	1,841	1,649	1,393	6,618	1,580	1,600	1,635	1,655	6,470	1,615	1,650	1,685	1,710	6,660
Operating income (loss)	2,126	3,234	2,380	1,394	9,134	1,128	1,578	2,513	2,593	7,812	2,433	2,589	2,740	2,828	10,591
Interest expense	215	211	249	259	934	249	150	150	150	699	50	50	50	50	200
Other (income) expense	(14)	(13)	(24)	(14)	(65)	(9)	(15)	(15)	(15)	(54)	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	1,925	3,036	2,155	1,149	8,265	888	1,443	2,378	2,458	7,167	2,398	2,554	2,705	2,793	10,451
Income tax expense (benefit)	565	864	713	209	2,351	268	433	713	737	2,151	719	766	812	838	3,135
Net income (loss)	1,360	2,172	1,442	940	5,914	620	1,010	1,665	1,721	5,016	1,679	1,788	1,893	1,955	7,316
Diluted EPS	0.18	0.28	0.18	0.12	0.76	0.08	0.13	0.22	0.22	0.65	0.22	0.23	0.25	0.25	0.95
Diluted Shares Outstanding	7,729	7,768	7,762	7,742	7,755	7,713	7,715	7,715	7,715	7,715	7,715	7,715	7,715	7,715	7,715
Margin Analysis															
Gross margin	18.4%	20.6%	16.4%	12.5%	17.0%	11.9%	13.7%	17.5%	17.7%	15.3%	17.3%	17.7%	18.1%	18.3%	17.9%
SG&A expenses	8.2%	7.5%	6.7%	6.3%	7.2%	7.0%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
Operating margin	10.1%	13.1%	9.7%	6.3%	9.9%	5.0%	6.8%	10.6%	10.8%	8.3%	10.4%	10.8%	11.2%	11.4%	11.0%
Net margin	6.5%	8.8%	5.9%	4.2%	6.4%	2.7%	4.4%	7.0%	7.2%	5.4%	7.2%	7.5%	7.7%	7.9%	7.6%
Year / Year Growth															
Total Revenues	-11.0%	2.3%	-0.1%	-5.8%	-3.6%	7.8%	-6.0%	-3.4%	7.8%	1.2%	3.2%	3.2%	3.2%	3.3%	3.2%
Net Income	-51.4%	-42.5%	-62.2%	-70.3%	-56.4%	-54.4%	-53.5%	15.4%	83.1%	-15.2%	170.8%	77.0%	13.8%	13.6%	45.9%
EPS	-58.0%	-49.0%	-65.5%	-70.0%	-59.6%	-54.3%	-53.2%	19.9%	83.7%	-14.7%	170.8%	77.0%	13.8%	13.6%	45.9%

Source: Company filings and Taglich Brothers' estimates

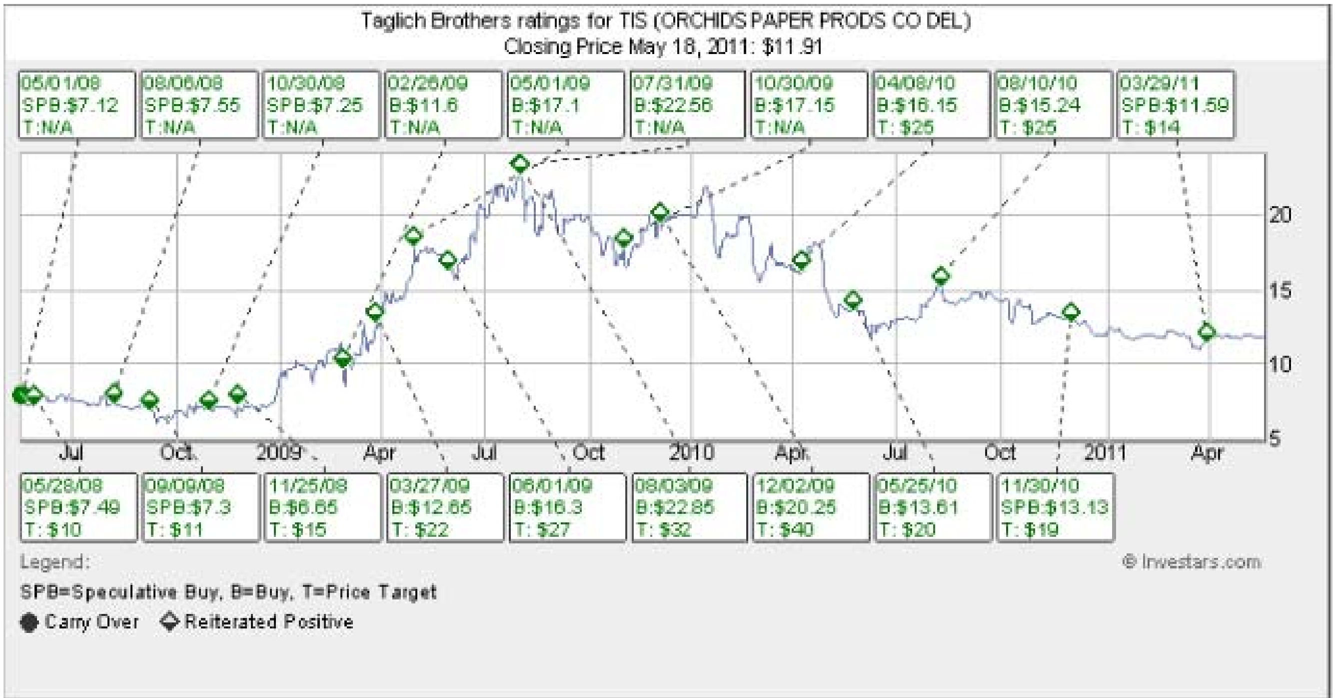
Orchids Paper Products Company

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

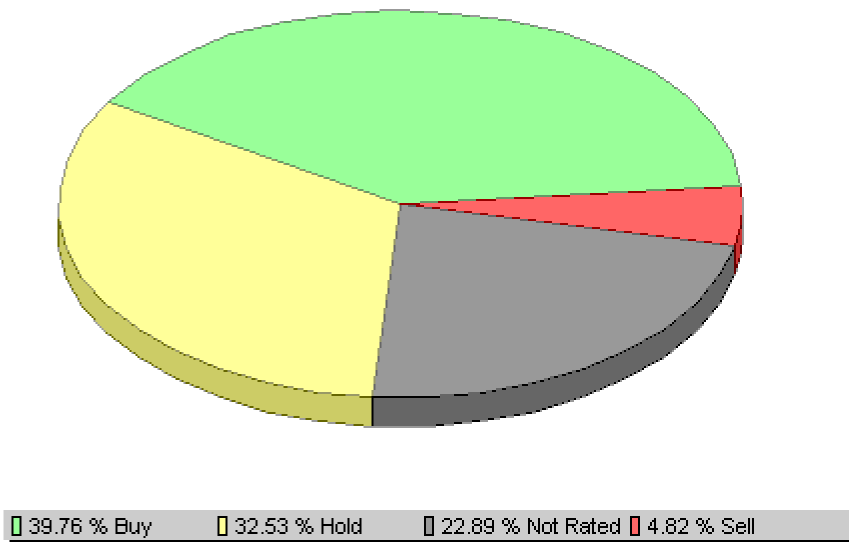
	2008A	2009A	2010A	3mos11A	2011E	2012E
Cash Flows from Operating Activities						
Net income(loss)	5,191	13,552	5,914	620	5,016	7,316
Depreciation and amortization	3,156	3,708	5,725	1,750	7,000	7,000
Provision for doubful accounts	87	60	(34)	-	60	60
Deferred income taxes	2,145	4,774	3,519	230	(2,400)	2,000
Stock based compensation	313	603	562	62	570	587
Changes in assets and liabilities						
Accounts receivable	(1,074)	(296)	629	(602)	(71)	(201)
Inventories	(1,379)	(1,316)	(26)	(258)	(251)	(6)
Prepaid expenses	(18)	(98)	(41)	17	(6)	(18)
Income taxes receivable	24	-	(3,952)	2,361	3,952	-
Accounts payable	(61)	(650)	1,201	(1,056)	174	4
Acrrued liabilities	124	535	(849)	1,239	26	74
Net Cash Provided by (Used in) Operations	**8,508**	**20,872**	**12,648**	**4,363**	**14,069**	**16,816**
Cash Flows from Investing Activities						
Proceeds from the sale of investment securities	-	3,993	8,991	-	5,900	-
Purchase of investment securities	-	(22,502)	-	-	-	-
Purchase of property and equipment	(6,926)	(15,711)	(26,786)	(717)	(3,500)	(3,500)
Net Cash Provided by (Used in) Investing	**(6,926)**	**(34,220)**	**(17,795)**	**(717)**	**2,400**	**(3,500)**
Cash Flows from Financing Activities						
Proceeds from issuance of stock	-	14,847	-	-	-	-
Borrowings under construction loan	-	3,756	5,197	-	-	-
Repayments on construction loan	-	-	-	-	(5,200)	-
Borrowings on long-term debt	-	-	-	-	10,000	-
Principal payments on long-term debt	(2,286)	(3,059)	(3,787)	(1,021)	(11,415)	(8,000)
Net borrowings (repayments) on revolving credit line	696	(1,487)	2,672	(2,032)	(6,742)	(2,000)
Proceeds from the exercise of warrants attached to debentures	16	286	-	-	-	-
Proceeds from the exercise of stock options		269	-	19	19	-
Deferred debt issuance cost	-	(43)	(25)	-	-	-
Dividends paid	-	-	-	(749)	(3,000)	(3,000)
Net Cash Provided by (Used in) Financing	**(1,574)**	**14,569**	**4,057**	**(3,783)**	**(16,338)**	**(13,000)**
Net Change in Cash	**8**	**1,221**	**(1,090)**	**(137)**	**131**	**316**
Cash - Beginning of Period	**3**	**11**	**1,232**	**142**	**142**	**273**
Cash - End of Period	**11**	**1,232**	**142**	**5**	**273**	**590**
Cash Flow from Operations	8,508	20,872	12,648	4,363	14,069	16,816
Capital Expenditures	(6,926)	(15,711)	(26,786)	(717)	(3,500)	(3,500)
Free Cash Flow	1,582	5,161	(14,138)	3,646	10,569	13,316

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy		
Hold	None	
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of TIS common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 456,216 shares of TIS common stock (includes 338,744 shares of restricted stock). Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 438,317 shares of TIS common stock (includes 135,413 shares of restricted stock). Richard Oh, Managing Director of Taglich Brothers, Inc., owns 15,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 144,150 shares of TIS common stock (includes 33,477 shares of restricted stock). Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 8,262 shares of TIS common stock. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

All research issued by Taglich Brothers, Inc. is based on public information. Since April 2008, the company pays a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

Cascades (OTC PK: CADNF)
Clearwater Paper (NYSE: CLW)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

Meaning of Ratings

Buy

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical "buy" recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

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

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