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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, 2014

TIS $29.33 — (NYSE MKT)

	2012A	2013A	2014E	2015E
Revenues (millions)	$100.8	$116.4	$134.5	$159.8
Earnings per share	$1.18	$1.67	$1.70	$2.15

52-Week range	$34.20 – $23.17	Fiscal year ends:	December
Shares outstanding a/o 4/25/14	8.1 million	Revenue per share (TTM)	$14.54
Approximate float	7.5 million	Price/Sales (TTM)	2.0X
Market capitalization	$238 million	Price/Sales (FY2015)E	1.6X
Tangible book value/share	$10.52	Price/Earnings (TTM)	18.3X
Price/tangible book value	2.8X	Price/Earnings (FY2015)E	13.6X
Annual dividend	$1.40	Dividend Yield	4.8%

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:

Reiterating Speculative Buy rating and raising 12-month price target to $35.00 (previously $33.00) based on a multiple of 17X earnings applied to our discounted 2015 projections. Our target implies a total (including dividend) year-ahead return of 24%.

In January 2014, Private Label Buyer magazine reported that sales of private label tissue products, Orchids' principal market, grew as much as 10% in 2013. Driving this growth was continuous improvement in quality.

On May 5, 2014, Orchids announced it will acquire Fabrica Papel de San Francisco's (Fabrica) US business to support growth of Orchids' West Coast sales. Fabrica's unaudited US sales totaled approximately $25.8 million in 2013 and $8 million in 1Q14. Fabrica's shipments are expected to be fully accretive to Orchids starting in 3Q14.

Orchids generates higher margins from sales of tissue products versus bulk tissue paper. Orchids should increase tissue product tonnage by 22% in 2014 and 19% in 2015. This will result in minimal parent roll sales.

We project 2014 revenue of $134.5 million, up from $124.3 million revenue primarily due to the inclusion of Fabrica. Our 2014 EPS projection of $1.70 is down from $1.76 due to an increase in share count associated with the Fabrica alliance. We project 2015 revenue of $159.8 million and EPS of $2.15, up from $136.4 million revenue and EPS of $2.14 due primarily to a full year's inclusion of Fabrica.

On May 1, 2014, Orchids reported 1Q14 revenue of $27.8 million and EPS of $0.32. We projected 1Q14 revenue of $29.9 million and EPS of $0.41. 1Q14 results were adversely affected by a $1.1 million shipment delay into 2Q14.

Please view our disclosures on pages 13 - 15.

790 New York Avenue, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Recommendation and Valuation

Reiterating **Speculative Buy** rating and raising our **12-month price target to $35.00 (previously $33.00).** Our target implies a total (including dividend) year-ahead return of 24%.

Orchids' shares traded at its three-year historic average of 20X TTM earnings in 2013 (which reflects significant levels of higher tier converted products and expectations of dividends) and is currently trading at a multiple of 18X TTM earnings. We believe the pull back in the multiple is due to the adverse impact that high raw material costs will have on 2014 margins. However, increasing converted product shipments should help to improve margins in 2015. We believe that during the next twelve months, the market will accord the stock a multiple of 17X earnings with the level of sales and earnings we project. Applying a multiple of 17X to our 2015 EPS estimate of $2.15, discounted to a twelve-month value of $2.06, gives us a price target of approximately $35.00 per share.

Strategic Alliance with Fabrica

On May 5, 2014, Orchids announced a strategic alliance with Fabrica Papel de San Francisco (Fabrica) to support the growth of Orchids' US West Coast sales. Fabrica, based in Mexicali, Baja California, Mexico, is one of the largest tissue manufacturers in Mexico with 150,000 metric tons of capacity.

Orchids will acquire Fabrica's current US business, including certain manufacturing assets and access to 18,000 metric tons of capacity each year to support the value, premium and ultra-premium requirements of the US market, with an option to purchase an additional 7,000 metric tons in each of the first two years. Products will be produced at Fabrica's facility in Mexicali, Mexico and shipped directly to Orchids' US customers. Operating margins on products produced under this agreement are expected to be consistent with margins earned on products produced in Orchids' facility in Oklahoma. Fabrica's unaudited US sales totaled approximately $25.8 million in 2013 and $8 million in 1Q14, and EBITDA was approximately $5.1 million in 2013 and $2 million in 1Q14.

Orchids will pay $36.7 million including shares of Orchids' common stock having a value of $20 million and $16.7 million cash, which Orchids expects to fund with a new term loan. The alliance has been unanimously approved by Orchids' board of directors and the owners of Fabrica and is expected to close in 2Q14.

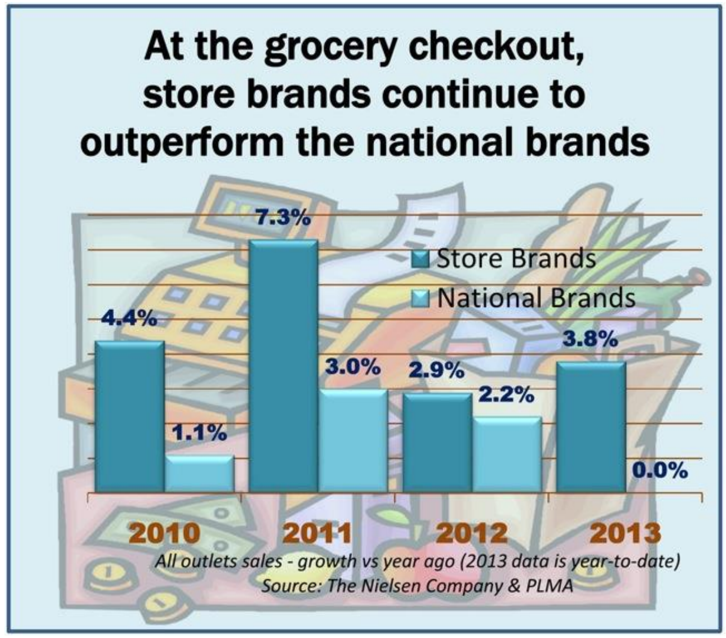
Business

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, converting it 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) and the growth in this channel of the retail market. Orchids has customers throughout the US, but 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. Orchids' products are daily consumable items so order streams are fairly constant with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products. However, local conditions might.

Private Label Outlook

In October 2013, the Private Label Manufacturers Association (PLMA) reported that shoppers are reaching for private label brands for almost one out of every four products they buy at supermarkets. In 2013, private label brands surpassed $110 billion in US sales and accounted for a 23.3% market share. According to statistics published by The Nielsen Co., private label sales grew an average of 4.6% annually from 2009 to 2013 vs. average growth of 1.6% for national brands. The growth in private label sales is driven by the rising quality of private label products and erosion of brand name loyalty.



The PLMA reported that consumers are developing new purchasing habits. Satisfaction with store brands during weak economic environments breeds familiarity and then loyalty to these products and the stores that sell them.

In January 2014, Euromonitor International reported[1] that products such as toilet tissue and paper towels were relatively easy for retailers to source and distribute while generating good margins. There was very little difference in quality between branded and private label tissue products. Euromonitor International said that retailers have begun to invest more in the marketing of their private labels, focusing on packaging, advertising, and promotions in order to achieve closer parity with branded products and to dispel their image of inferiority.

In January 2014, Private Label Buyer magazine cited data showing that private label toilet tissue was up more than 10% to almost $1.58 billion in 2013 for a 30% market share. Private label facial tissue was up more than 5% with an almost 30% market share and private label paper towels were up slightly capturing a market share of 44%. Driving the growth in private label paper products was continuous improvement in quality and performance.

In an October 2013 sanitary paper product manufacturing industry report, IBISWorld said that large discount retailers such as Walmart (accounted for 9% of Orchids' converted product sales in 2013) and Target were increasingly focusing on private-label goods that can provide higher margins. IBISWorld expects this trend to continue over the next five years. However, the competition from lower-priced imports is expected to mitigate US growth resulting in more moderate industry growth of 2.1% annually in the six years to 2019.

Economic Outlook

In April 2014, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.6% in 2014, down from an earlier (January 2014) growth forecast of 3.7%. Global growth is projected to increase to 3.9% in 2015. Driving this growth will be a recovery in the advanced economies. The IMF said that global economic activity picked up in the second half of 2013 and is expected to improve further in 2014 – 2015.

The IMF's economic growth estimate for the US was unchanged at 2.8% in 2014 and 3.0% in 2015 from earlier (January 2014) growth forecasts. The IMF said that some of the factors helping to drive US growth will come from accommodative monetary conditions and higher household wealth.

1. Euromonitor International (2014-01-15). "The New Face of Private Label: Global Market Trends to 2018". Executive Summary. Retrieved on March 17, 2014.

The Federal Reserve's (Fed) latest economic projection for the US economy in 2014 mirrors the IMF's current projection. In March 2014, the Fed projected the US economy to grow at a slightly slower but steady pace in 2014. The Fed projects US growth of 2.8% to 3% this year, a bit lower than its December 2013 projection of between 2.8% and 3.2%.

The Bureau of Economic Analysis reported that US GDP growth slowed to just 0.1% in 1Q14, down from 2.6% growth in 4Q13. Some of the factors contributing to the weak growth were a downturn in exports and business investment along with a slowdown in consumer spending. However, a Wall Street Journal article[2] reported that harsh weather was likely to blame for the 1Q14 slowdown. The article cited the forecasting firm Macroeconomic Advisers projection for economic growth of 3.5% in 2Q14 and expectations for growth in that vicinity for the rest of the year.

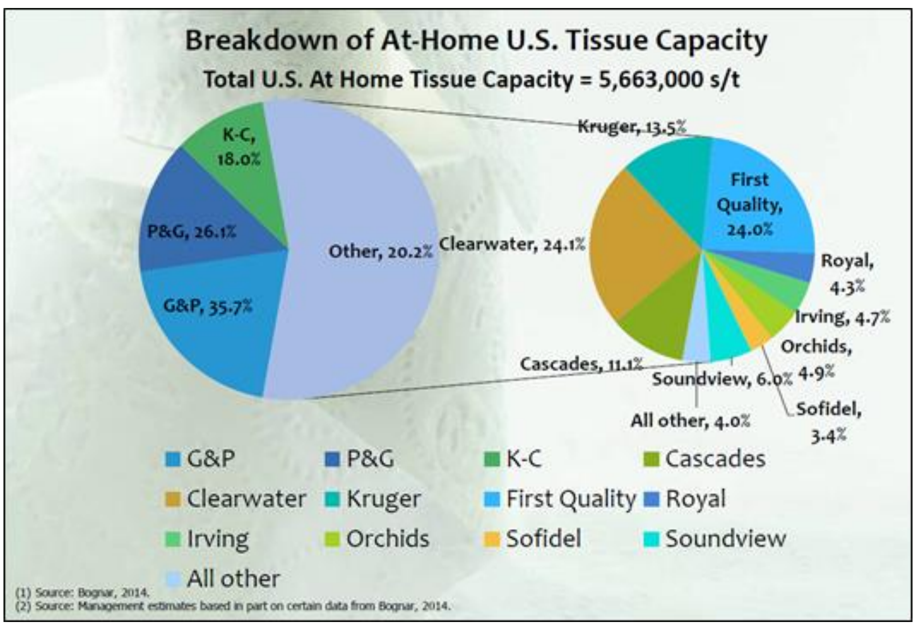
In April 2014, the Federal Reserve Bank of the Tenth Federal Reserve District, which includes most of the Oklahoma area, released its survey of manufacturing activity. The survey reported that the region's manufacturing activity moderated slightly after rising to a two-year high in March. However, producers' expectations for future activity climber higher. Future factory indexes increased in April 2014 with the order backlog index more than doubling and the future new orders for exports index edging higher.

Although tissue products are considered consumer staples and changes in the economy do not typically affect sales of overall tissue products, the recession did help in driving consumption to private label products such as Orchids'.

Market and Competition

In October 2013, IBISWorld estimated the 2013 US sanitary paper product market at $11.5 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $2.4 billion. The overall industry is projected to grow at a compound annual growth rate (CAGR) of 2% over the next six years to $13.1 billion by 2019.

Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $54.4 billion in 2014. IBISWorld projects dollar and variety stores' average revenue growth to decline 1.4% annually from 2013 to 2019 as competition from rivals such as Walmart increases.



Due to the company's proximity to the dollar and grocery stores in its target market, Orchids' products should save these customers approximately 70% in shipping costs (according to a food broker source in Texas) compared with most competitors' products, a significant competitive advantage. However, since 2010, competitors have moved into Orchids' market areas. The increased competition has reduced Orchids' competitive cost advantage and reduced gross margins from 29.2% in 2009 to 17.0% in 2010, and 16.3% in 2011. Orchids was able to reverse this downward trend as growing sales of higher margin converted products increased Orchids' gross margins to 22.4% in 2012 and 24% in 2013.

[2.] Eric Morath and Ben Leubsdorf (April 30, 2014). "U.S. Economy Starts Year with a Whimper". The Wall Street Journal.

Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of delivered product costs. 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 give these competitors a significant presence.

Clearwater Paper and Cascades are the only publicly held direct competitors. Revenue and gross margins for Orchids and its competitors are shown at right. These competitors' lower gross margins versus Orchids' could drive them to expand in Orchids' market, increasing pressure on Orchids' prices and margins.

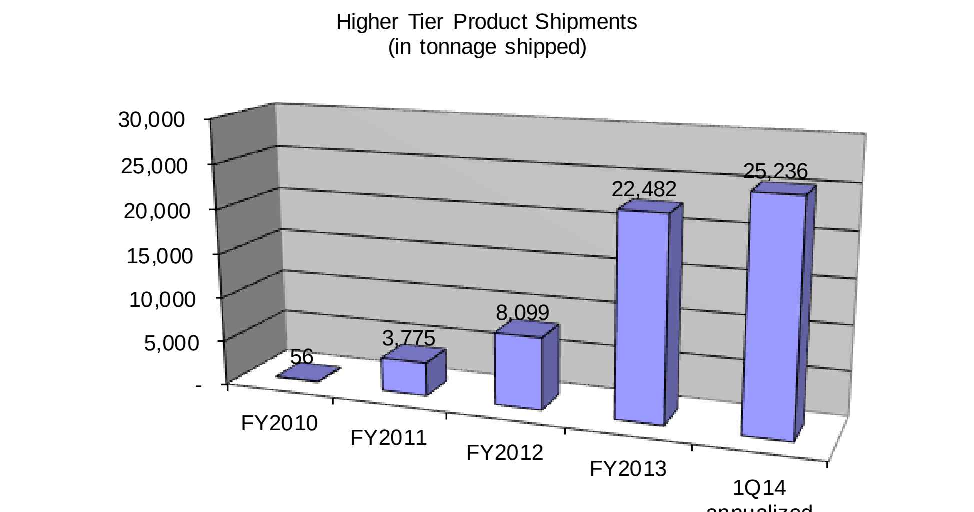
	Clearwater Paper	Cascades	Orchids Paper
2013 Revenue	$1.9B	$3.8B	$116.4M
2013 Gross Margin	11.6%	14.9%	24.0%
2012 Revenue	$1.9B	$3.6B	$100.8M
2012 Gross Margin	14.2%	13.4%	22.4%

Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In 2010, Orchids' increased its annual converting capacity by approximately four million cases with the installation of a new converting line, bringing its annual converting capacity to 12.5 million cases per year. In 2011, Orchids made changes to its operating procedures and invested in equipment in order to develop higher quality products for the mid-tier market. In 2014, the company plans to upgrade one of its converting lines to further improve manufacturing flexibility and capacity. Orchids also plans to replace two existing paper machines with a new machine that is expected to increase annual capacity from 57,000 tons to over 70,000 tons. The converting line project is expected to be completed by the end of 2014 and the paper machine is expected to begin production in early 2015.

Orchids plans to expand into retail channels such as grocery stores, mass merchandise and other discount retail sectors. Initial efforts to expand into these other channels previously had limited success due to capacity constraints and the inability to produce higher grade products. However, these shortcomings have been partly overcome by the additional converting line and new product initiatives (higher grade products).

The graph at right shows how shipments of Orchids' higher grade converted products have grown over the past four years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing).



Source: Company filings

1Q14 Financial Results

Sales of $27.8 million were up 4% from $26.6 million in 1Q13. Net income was $2.6 million or $0.32 per share versus net income of $3.1 million or $0.39 per share. We projected 1Q14 sales of $29.9 million and net income of $3.6 million or $0.41 per share. 1Q14 results were adversely affected by a $1.1 million shipment delay into 2Q14.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in 1Q14 increased 6% to $26.2 million while parent roll (bulk tissue paper) sales decreased 20% to $1.6 million.

The increase in converted product sales was due to a 3% increase in tonnage shipped and a 4% increase in selling prices. The increase in converted product shipments was primarily due to sales in the mid and premium tier markets. Net sales of bulk tissue paper decreased due to the increased requirements of the converting operations.

Gross margins decreased to 21.7% from 24.5% primarily due to higher raw material costs, higher overhead costs, and lower parent roll selling prices. Selling, general and administrative (SG&A) expenses decreased to $2.2 million from $2.3 million due to lower bonuses and stock option expenses. Operating income decreased to $3.8 million or 13.8% of sales from $4.3 million or 16% of sales. Interest expense decreased to $13,000 from $93,000 primarily due to capitalization of interest on significant projects and lower debt levels.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2015. As of March 31, 2014, Orchids had a strong balance sheet with cash of $7.2 million and a debt/equity ratio of 0.2 versus 0.5 for the paper products industry.

Cash from operations of $4.8 million was primarily due to cash earnings. Capital expenditures of $1.8 million, $2.8 million in dividend payments, and $288,000 principal payments on long-term debt kept cash relatively unchanged at $7.2 million as of March 31, 2014.

A $33 million credit agreement with JP Morgan Chase provides for a $15 million revolving credit line (due April 2016), a $10.8 million real estate term loan with a ten-year term (due April 2021) but amortized as if it had a 25-year life, and a $7.2 million machinery and equipment term loan with a seven-year term (due April 2018). The amount outstanding under this credit facility was $14.8 million as of March 31, 2014.

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), at 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 tangible net worth. As of March 31, 2014, the company was in compliance with those covenants.

Projections

Fabrica shipped approximately 15,200 tons of converted products in the US in 2013 at a cost of approximately $1,700 per ton. Fabrica's shipments are expected to be fully accretive to Orchids starting in 3Q14. With the additional shipments from Fabrica and continued growth of Orchids' converted products, we project approximately 64,000 tons of converted products being shipped in 2014. We project a full year's worth of shipments from Fabrica should increase Orchids' converted product shipments to 76,000 tons in 2015. Converted product selling prices are projected to remain relatively flat during this time as the lower selling prices associated with Fabrica's products should offset the overall 2% price increases projected for paper products as a growing economy drives increased demand.

Revenue Model

2013	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	52,592	$ 2,084	$ 109,611
Parent Roll	6,726	$ 1,006	$ 6,763
Total	59,318	$ 1,962	$ 116,374
2014	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	64,000	$ 2,086	$ 133,504
Parent Roll	1,000	$ 1,026	$ 1,026
Total	65,000	$ 2,070	$ 134,530
2015	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	76,000	$ 2,089	$ 158,764
Parent Roll	1,000	$ 1,047	$ 1,047
Total	77,000	$ 2,075	$ 159,811

Source: Company filings and Taglich Brothers estimates

There are no sales contracts guaranteeing these orders. However, customer order streams are fairly constant and typically last several years.

COGS (in thousands $) Model

	2010A	2011A	2012A	2013A	2014E	2015E
Variable cost (paper)	$ 43,947	$ 46,337	$ 42,566	$ 43,949	$ 49,855	$ 60,522
Est. variable cost (other)	$ 20,334	$ 21,373	$ 21,110	$ 27,699	$ 31,265	$ 37,499
Total est. variable costs	$ 64,281	$ 67,710	$ 63,676	$ 71,648	$ 81,120	$ 98,021
Est. fixed cost (overhead)	$ 6,778	$ 7,124	$ 7,036	$ 9,233	$ 11,080	$ 11,410
Fixed cost (depreciation)	$ 5,693	$ 7,052	$ 7,541	$ 7,613	$ 10,300	$ 10,440
Total est. fixed costs	$ 12,471	$ 14,176	$ 14,577	$ 16,846	$ 21,380	$ 21,850
COGS	$ 76,752	$ 81,886	$ 78,253	$ 88,494	$ 102,500	$ 119,871
Tons shipped	56,663	55,514	53,995	59,318	65,000	77,000
Variable (paper) costs/ton	$ 776	$ 835	$ 788	$ 741	$ 767	$ 786
Est. variable (other) cost/ton	$ 359	$ 385	$ 391	$ 467	$ 481	$ 487
Total variable costs/ton	$ 1,134	$ 1,220	$ 1,179	$ 1,208	$ 1,248	$ 1,273
Fixed costs/ton	$ 220	$ 255	$ 270	$ 284	$ 329	$ 284
Total COGS/ton	$ 1,355	$ 1,475	$ 1,449	$ 1,492	$ 1,577	$ 1,557
Gross profit	$ 15,752	$ 15,957	$ 22,566	$ 27,880	$ 32,018	$ 39,900
Gross margin	17.0%	16.3%	22.4%	24.0%	23.8%	25.0%

Source: Company filings and Taglich Brothers estimates

We project gross margins decreasing to 23.8% in 2014 primarily due to higher raw material costs but increasing to 25% in 2015 as increased sales of higher margin converted products more than offsets increasing raw material costs. Paper costs are projected to increase to $767/ton in 2014 and $786/ton in 2015, in line with IBISWorld's projected percentage increases for wood pulp prices. We project other variable costs in 2014 and 2015 to increase primarily due to inflationary pressures. Fixed costs per ton are projected to increase in 2014 with the Fabrica acquisition but the manufacturing efficiencies associated with increased production should help to reduce fixed costs per ton in 2015. The table above shows our estimated costs per ton (variable and fixed) over the past four years and our estimates for 2014 and 2015.

We project 2014 revenue of $134.5 million and net income of $14.6 million or $1.70 per share. Our revenue and net income projections have increased (previously $124.3 million revenue and $14.3 million net income) due primarily to the inclusion of Fabrica. However, our EPS projection is lower (previously $1.76) due to an increase in the number of outstanding shares associated with the Fabrica alliance.

We project SG&A expenses of $10.5 million in 2014 (of which approximately 1.6% or $2.2 million of sales are commission-related). Our SG&A projection is up over 2013 due primarily to the inclusion of Fabrica resulting in operating margins of 16%. The tax rate is estimated at 31.1%.

For 2014 we project cash earnings of $25 million and a $1.2 million increase in working capital will result in cash from operations of $23.8 million. The increase in working capital is primarily due to increases in accounts receivables and inventories. Cash from operations will be insufficient to cover $40 million of capital expenditures (from investments in a new paper machine, a converting line upgrade, and the acquisition of Fabrica's US business) necessitating a $19.7 million net increase in debt. Dividends of $11.3 million and a total of $4.7 million from option exercises and associated tax benefits should decrease cash by $3.1 million to $4.1 million at December 31, 2014.

We project 2015 revenue of $159.8 million and net income of $18.9 million or $2.15 per share. Our revenue and net income projections have increased (previously $136.4 million revenue and $17.4 million or $2.14 per share net income) due primarily to a full year's inclusion of Fabrica.

We project SG&A expenses of $12 million in 2015 (of which approximately 1.6% or $2.6 million of sales are commission-related), higher by $1.5 million due primarily to a full year's inclusion of Fabrica. Operating margins are projected to increase to 17.5% from 16% due primarily to the gross profit gains discussed earlier. The tax rate is estimated at 31.1%.

For 2015 we project cash earnings of $29.7 million and a $2 million increase in working capital will result in cash from operations of $27.7 million. The increase in working capital is primarily due to increases in accounts receivables and inventories. Cash from operations will cover $12 million of capital expenditures, an $8 million pay down of debt, and $11.3 million in dividends, increasing cash by $1.1 million to $5.2 million at December 31, 2015.

Risks

Customer concentration
Four customers (Dollar General, Family Dollar, HEB and Wal-Mart) accounted for approximately 81% of converted product sales in 2013. 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 market has reduced some of its competitive cost advantages and put pressure on selling prices.

Orchids may not be able to sell the capacity from its expanded converting line
Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

Strategic Alliance with Fabrica
Our estimates are made with the assumption that the strategic alliance between Orchids and Fabrica will likely close in 2Q14. The alliance is subjective to the satisfaction or waiver of closing conditions and Orchids' ability to obtain the necessary financing. There can be no assurance that these conditions will be obtained.

No reliance on contracts
Sales contracts are not the norm in the industry. Although orders typically result in multi-year revenue streams, there can be no guarantee as to their length.

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 7.5 million shares in the float with an average daily volume of approximately 79,000 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.

Consolidated Balance Sheets
(in thousands $)

	2011A	2012A	2013A	3/14A	2014E	2015E
Cash	4,297	5,734	7,205	7,224	4,133	5,247
Accounts receivable	6,939	5,406	6,585	5,620	7,611	9,042
Inventories	7,811	10,275	10,921	12,836	12,648	14,797
Short term investments	2,019	5,027	5,035	5,037	5,037	5,037
Income taxes receivable	285	607	-	-	-	.
Prepaid expenses	530	637	863	751	751	751
Other	338	44	146	-	-	-
Deferred income taxes	410	393	552	544	544	544
Total current assets	22,629	28,123	31,307	32,012	30,725	35,418
Property, plant and equipment	92,285	91,188	95,745	95,305	125,337	126,897
Deferred debt issuance costs	54	47	40	39	39	39
Total Assets	114,968	119,358	127,092	127,356	156,101	162,354
Accounts payable	3,520	3,685	3,685	3,626	4,268	4,993
Accrued liabilities	2,615	2,832	4,030	4,806	4,658	5,534
Current portion of long-term debt	1,152	1,152	1,152	1,152	1,152	1,152
Total current liabilities	7,287	7,669	8,867	9,584	10,078	11,679
Long-term debt	16,231	15,079	13,927	13,639	33,639	25,639
Deferred income taxes	18,801	19,432	19,449	19,202	19,202	19,202
Total liabilities	42,319	42,180	42,243	42,425	62,919	56,520
Total stockholders' equity	72,649	77,178	84,849	84,931	93,182	105,834
Total liabilities & stockholders' equity	114,968	119,358	127,092	127,356	156,101	162,354

Source: Company filings and Taglich Brothers' estimates

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

	2011A	2012A	2013A	2014E	2015E
Net sales	97,843	100,819	116,374	134,509	159,800
Cost of sales	81,886	78,253	88,494	102,491	119,900
Gross profit	15,957	22,566	27,880	32,018	39,900
SG&A expenses	6,810	8,456	9,471	10,504	12,000
Operating income (loss)	9,147	14,110	18,409	21,514	27,900
Interest expense	647	407	371	373	480
Other (income) expense	(42)	302	(173)	1	-
Income (loss) before taxes	8,542	13,401	18,211	21,140	27,420
Income tax expense (benefit)	2,344	4,144	4,892	6,567	8,528
Net income (loss)	6,198	9,257	13,319	14,573	18,892
EPS	0.80	1.18	1.67	1.70	2.15
Shares Outstanding	7,722	7,832	7,937	8,563	8,800
Margin Analysis					
Gross margin	16.3%	22.4%	24.0%	23.8%	25.0%
SG&A expenses	7.0%	8.4%	8.1%	7.8%	7.5%
Operating margin	9.3%	14.0%	15.8%	16.0%	17.5%
Net margin	6.3%	9.2%	11.4%	10.8%	11.8%
Tax rate	27.4%	30.9%	26.9%	31.1%	31.1%
Year / Year Growth					
Total Revenues	5.8%	3.0%	15.4%	15.6%	18.8%
Net Income	4.8%	49.4%	43.9%	9.4%	29.6%
EPS	5.3%	47.3%	41.3%	1.9%	26.2%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2013, 2014, and 2015
(in thousands $)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14A	6/14E	9/14E	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	26,609	29,232	29,760	30,773	116,374	27,759	29,900	38,650	38,200	134,509	38,600	39,600	41,000	40,600	159,800
Cost of sales	20,082	22,236	22,620	23,556	88,494	21,741	22,750	29,150	28,850	102,491	29,000	29,750	30,700	30,450	119,900
Gross profit	6,527	6,996	7,140	7,217	27,880	6,018	7,150	9,500	9,350	32,018	9,600	9,850	10,300	10,150	39,900
SG&A expenses	2,273	2,517	2,122	2,559	9,471	2,179	2,325	3,025	2,975	10,504	2,900	2,975	3,075	3,050	12,000
Operating income (loss)	4,254	4,479	5,018	4,658	18,409	3,839	4,825	6,475	6,375	21,514	6,700	6,875	7,225	7,100	27,900
Interest expense	93	95	92	91	371	13	120	120	120	373	120	120	120	120	480
Other (income) expense	(5)	(7)	(9)	(152)	(173)	1	-	-	-	1	-	-	-	-	-
Income (loss) before taxes	4,166	4,391	4,935	4,719	18,211	3,825	4,705	6,355	6,255	21,140	6,580	6,755	7,105	6,980	27,420
Income tax expense (benefit)	1,073	1,248	1,212	1,359	4,892	1,182	1,463	1,976	1,945	6,567	2,046	2,101	2,210	2,171	8,528
Net income (loss)	3,093	3,143	3,723	3,360	13,319	2,643	3,242	4,379	4,310	14,573	4,534	4,654	4,895	4,809	18,892
EPS	0.39	0.39	0.47	0.42	1.67	0.32	0.38	0.50	0.49	1.70	0.52	0.53	0.56	0.55	2.15
Shares Outstanding	7,895	7,984	8,074	8,121	7,937	8,153	8,500	8,800	8,800	8,563	8,800	8,800	8,800	8,800	8,800
Margin Analysis															
Gross margin	24.5%	23.9%	24.0%	23.5%	24.0%	21.7%	23.9%	24.6%	24.5%	23.8%	24.9%	24.9%	25.1%	25.0%	25.0%
SG&A expenses	8.5%	8.6%	7.1%	8.3%	8.1%	7.8%	7.8%	7.8%	7.8%	7.8%	7.5%	7.5%	7.5%	7.5%	7.5%
Operating margin	16.0%	15.3%	16.9%	15.1%	15.8%	13.8%	16.1%	16.8%	16.7%	16.0%	17.4%	17.4%	17.6%	17.5%	17.5%
Net margin	11.6%	10.8%	12.5%	10.9%	11.4%	9.5%	10.8%	11.3%	11.3%	10.8%	11.7%	11.8%	11.9%	11.8%	11.8%
Tax rate	25.8%	28.4%	24.6%	28.8%	26.9%	30.9%	31.1%	31.1%	31.1%	31.1%	31.1%	31.1%	31.1%	31.1%	31.1%
Year / Year Growth															
Total Revenues	3.4%	15.6%	15.4%	28.0%	15.4%	4.3%	2.3%	29.9%	24.1%	15.6%	39.1%	32.4%	6.1%	6.3%	18.8%
Net Income	22.6%	40.5%	60.1%	54.6%	43.9%	(14.5%)	3.1%	17.6%	28.3%	9.4%	71.5%	43.6%	11.8%	11.6%	29.6%
EPS	22.0%	38.0%	62.1%	52.7%	41.3%	(17.3%)	(3.1%)	5.9%	16.6%	1.9%	58.9%	38.7%	11.8%	11.6%	26.2%

Source: Company filings and Taglich Brothers' estimates

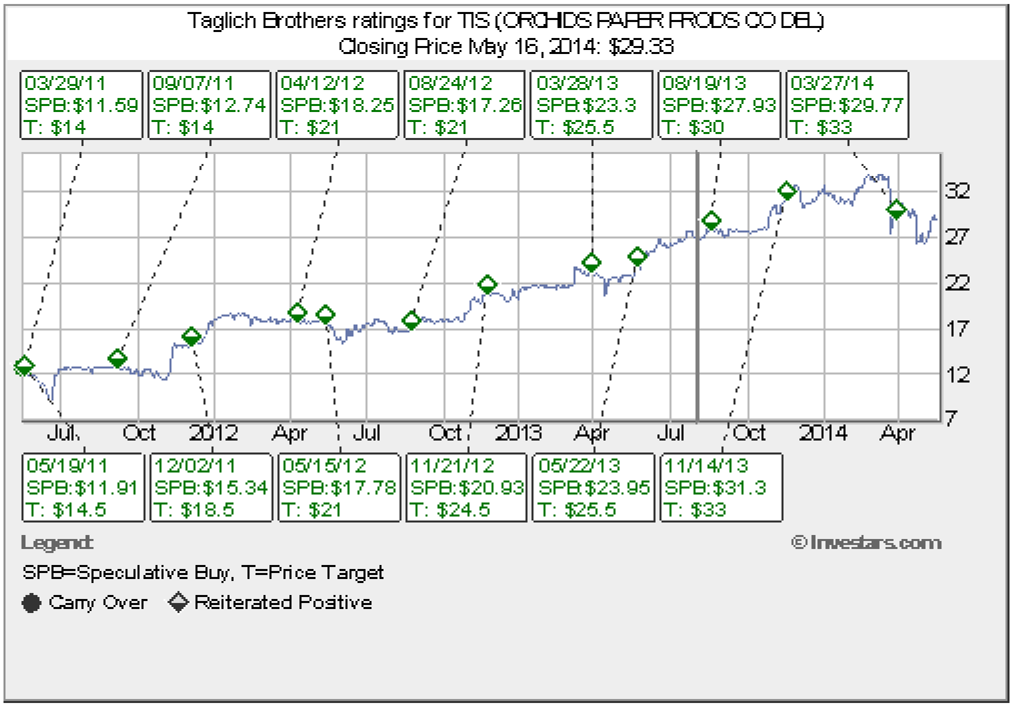
Orchids Paper Products Company

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

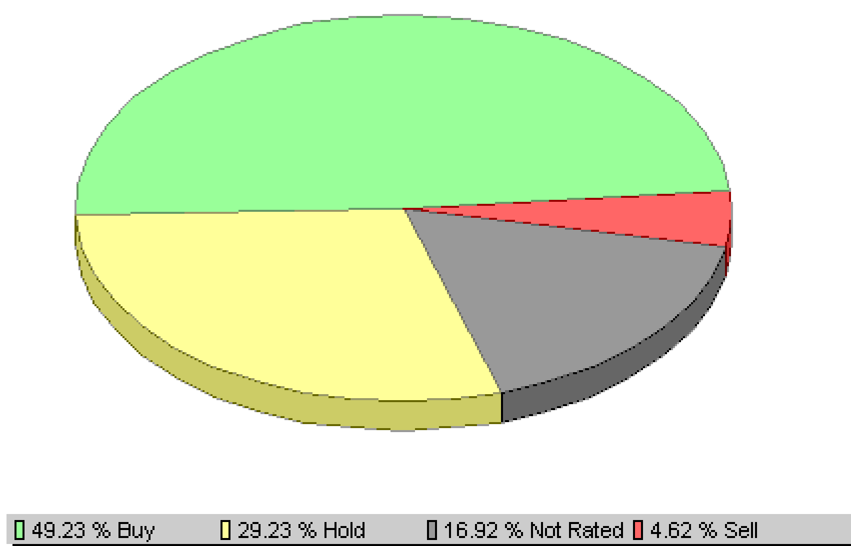
	2011A	2012A	2013A	3mos14A	2014E	2015E
Net income(loss)	6,198	9,257	13,319	2,643	14,573	18,892
Depreciation and amortization	7,132	7,548	7,621	2,211	10,300	10,440
Provision for doubful accounts	(30)	(20)	10	1	10	10
Deferred income taxes	2,359	648	(142)	(239)	(247)	-
Stock based compensation	290	346	346	165	346	346
Loss on disposal of property, plant and equipment	-	336	(146)	8	8	-
Changes in assets and liabilities						
Accounts receivable	(754)	1,553	(1,189)	964	(1,026)	(1,431)
Inventories	(216)	(2,464)	(646)	(1,915)	(1,727)	(2,148)
Prepaid expenses	8	(107)	(226)	112	112	-
Income taxes receivable	2,390	(322)	607	-	99	(10)
Other current assets	(338)	294	44	146	146	-
Accounts payable	(1,730)	165	-	(59)	583	725
Acrrued liabilities	346	217	1,198	776	628	876
Net Cash Provided by (Used in) Operations	15,655	17,451	20,796	4,813	23,804	27,700
Proceeds from the sale of investment securities	7,500	-	(8)	(2)	(2)	-
Purchase of investment securities	-	(3,008)	-	-	-	-
Purchase of property and equipment	(5,531)	(6,780)	(12,171)	(1,778)	(40,000)	(12,000)
Net Cash Provided by (Used in) Investing	1,969	(9,788)	(12,179)	(1,780)	(40,002)	(12,000)
Borrowings on long-term debt	18,021	-	-	-	20,000	-
Principal payments on long-term debt	(2,007)	(1,152)	(1,152)	(288)	(288)	(8,000)
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	(2,672)	-	-	-	-	-
Proceeds from the exercise of stock options	303	974	3,305	79	3,305	3,305
Excess tax benefit of stock options exercised	15	395	1,409	20	1,409	1,409
Deferred debt issuance cost	(59)	-	-	-	-	-
Dividends paid	(3,753)	(6,443)	(10,708)	(2,825)	(11,300)	(11,300)
Net Cash Provided by (Used in) Financing	(13,469)	(6,226)	(7,146)	(3,014)	13,126	(14,586)
Net Change in Cash	4,155	1,437	1,471	19	(3,072)	1,114
Cash - Beginning of Period	142	4,297	5,734	7,205	7,205	4,133
Cash - End of Period	4,297	5,734	7,205	7,224	4,133	5,247
Cash Flow from Operations	15,655	17,451	20,796	4,813	23,804	27,700
Capital Expenditures	(5,531)	(6,780)	(12,171)	(1,778)	(40,000)	(12,000)
Free Cash Flow	10,124	10,671	8,625	3,035	(16,196)	15,700

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	2	7
Hold	1	14
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 136,473 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 285,194 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 72,900 shares of TIS common stock (includes 33,477 shares of restricted 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. From April 2008 to December 2012, the company paid 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)
Dollar General (NYSE: DG)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, 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.