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 22, 2013

TIS $23.95 — (NYSE MKT)

	2011A	2012A	2013E	2014E
Revenues (millions)	$97.8	$100.8	$113.5	$124.3
Earnings per share	$0.80	$1.18	$1.49	$1.75

52-Week range	$24.24 – $15.21	Fiscal year ends:	December
Shares outstanding a/o 4/30/13	7.8 million	Revenue per share (TTM)	$13.38
Approximate float	5.6 million	Price/Sales (TTM)	1.7X
Market capitalization	$173 million	Price/Sales (FY2014)E	1.4X
Tangible book value/share	$10.10	Price/Earnings (TTM)	17.8X
Price/tangible book value	2.2X	Price/Earnings (FY2014)E	12.7X
Annual dividend	$1.40	Dividend Yield	6.1%

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 maintaining 12-month price target of $25.50. Our target implies a total (including dividend) year-ahead return of 13%.

Growth of private label tissue products such as Orchids' has been steady. In April 2013, IBISWorld said that large discount retailers such as Walmart (accounted for 12% of Orchids' converted product sales in 2012) and Target were increasingly focusing on private label goods. As Orchids sells predominantly to the private label market, a growing market should bode well for sales of the company's products.

We expect additional converted product orders (8,300 tons annually) to ship in 2013 increasing converted product tonnage by 19% in 2013 while decreasing parent roll sales by 64%. We project a further 10% increase in converted product tonnage to be shipped in 2014 (as we do not believe the 19% rate sustainable) and a corresponding 71% decrease in parent roll sales.

For 2013, we project revenue of $113.5 million and EPS of $1.49. Our revenue projection is reduced from $114 million to reflect lower converted product shipments than previously anticipated. Our EPS projection is increased from $1.45 due to tax credits that went into effect in 1Q13.

For 2014, we project revenue of $124.3 million and EPS of $1.75. Our revenue projection is reduced from $125.4 million due to lower converted product shipments than previously anticipated. Our EPS projection is increased from $1.68 due to tax credits.

On April 24, 2013, Orchids reported 1Q13 revenue of $26.6 million and EPS of $0.39. We projected 1Q13 revenue of $27 million and EPS of $0.32.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

Reiterating **Speculative Buy** rating and maintaining **12-month price target of $25.50.** Our target implies a total (including dividend) year-ahead return of 13%.

Orchids' shares traded at an average multiple of 16X TTM earnings over the past two years (since significant levels of higher tier converted products started shipping and the dividend policy was instituted). We believe that during the next twelve months, the market will accord the stock a multiple of 16X as sales and earnings continue to grow. Applying a multiple of 16X to our 2014 fully taxed EPS estimate of $1.65 discounted to a twelve-month value of $1.59 gives us a price target of approximately $25.50 per share. Our fully taxed $1.65 EPS estimate for 2014 excludes the effects of tax credits. We derived a discount factor of 5% using a risk free rate of 1.8%, a market premium of 6.4%, and the company's beta of 0.52.

Dividend Increase

In May 2013, Orchids authorized an increase in its quarterly cash dividend from $0.30 per share to $0.35. The company has increased its dividend by $0.05 for the past 3 consecutive quarters. The increased dividend will be effective for the dividend payable on June 21, 2013 to stockholders of record at the close of business on June 7, 2013.

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 United States, 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 consistent with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products. However, local conditions might.

An article in Tissue World Magazine (Sofidel: going for growth in the USA; October/November 2012) reported that while the US is predominately a branded market, private label tissue products are increasingly taking market share each year. Tissue World said this may be due to American retailers increasingly demanding premium quality for their private label tissue products.

In April 2013, IBISWorld said that large discount retailers such as Walmart (accounted for 12% of Orchids' converted product sales in 2012) and Target were increasingly focusing on private-label goods that can provide higher margins. As Orchid's sells primarily to the private label market, this should bode well for sales of its products to large discount retailers such as Walmart. IBISWorld expects this trend to continue over the next five years. However, competition from lower-priced imports is expected to mitigate growth resulting in the overall industry increasing modestly at an average annualized growth rate of 0.4% from 2013 to 2018.

Economic Outlook

In April 2013, the International Monetary Fund (IMF) lowered its projections for US economic growth to 1.9% in 2013 and 3% in 2014. These are slightly changed from earlier projections (January 2013) of 2.1% in 2013 and 3.1% in 2014. The IMF said that recent policy actions in the US have improved the short-term risk picture but a larger-than-expected fiscal adjustment from automatic spending cuts (the sequester) or failure to raise the debt ceiling could exert a stronger drag on growth.

In April 2013, 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 fell modestly in April 2013 and producer's expectations moderated but remained positive overall. Several firms reported that new product opportunities and pent up demand were key reasons for their optimism. However, other firms noted that their outlook has deteriorated since the beginning of the year.

As tissue products are considered consumer staples, changes in the economy do not materially affect sales.

Market and Competition

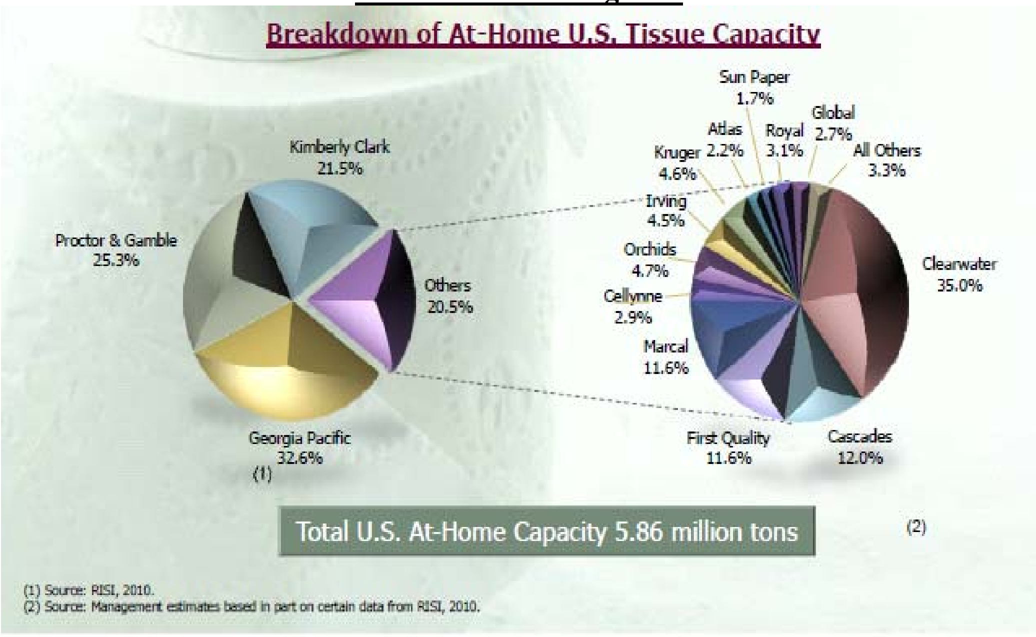
IBISWorld estimates the US tissue market (paper towels, bathroom tissue, and paper napkins) at $2.5 billion in 2013 and projects the industry to grow at a compound annual growth rate (CAGR) of 0.4% over the next five years.

Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $59.8 billion in 2013. IBISWorld projects dollar and variety stores' revenue growth averaging 2.2% annually from 2013 to 2018.

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, 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. In 2012 Orchids was able to reverse this downward trend as lower raw material costs and growing sales of higher margin converted products increased Orchids' gross margins to 22.4%.

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.

Orchids' Market Segment



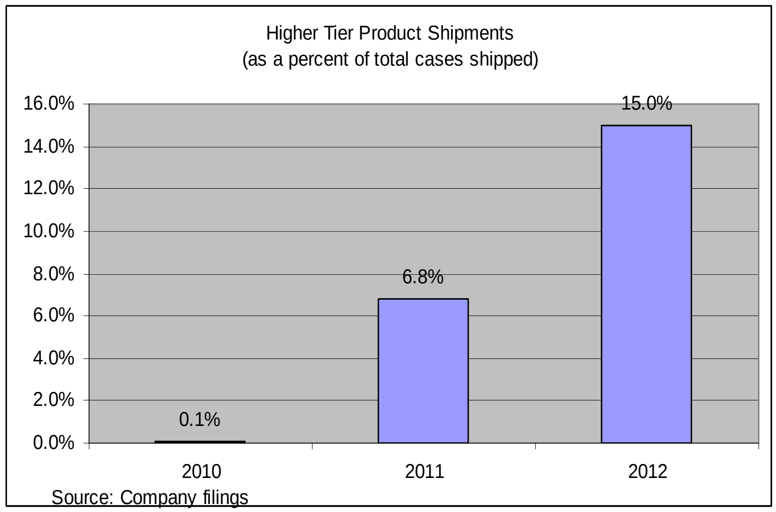
Source: Orchids Paper Products

Clearwater Paper and Cascades are the only publicly held direct competitors. Clearwater Paper's 2011 and 2012 revenue was $1.9 billion for both periods with gross margins of 11.7% and 13.9% respectively, while Cascades 2011 and 2012 revenue was $3.5 billion for both periods with gross margins of 10.4% and 13.4% respectively. These competitors' lower gross margins versus Orchids' 16.3% in 2011 and 22.4% in 2012 could drive them to expand in Orchids' market, increasing pressure on Orchids' prices and margins.

Strategy

Orchids aims to sell all of its manufactured paper goods as converted products, which yield higher margins. In 2010, Orchids' increased its annual converting capacity by approximately 4 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.

Orchids plans to expand into other 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 three years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing).



1Q13 Financial Results

1Q13 sales of $26.6 million were up 4% from $25.7 million in 1Q12. Net income was $3.1 million or $0.39 per share versus net income of $2.5 million or $0.32 per share. We projected 1Q13 sales of $27 million and net income of $2.6 million or $0.32 per share. The greater than expected EPS was primarily due to greater gross margins (by 1.5%) and a lower tax rate (by 8.2%) than we anticipated. 1Q13 gross margins were favorably affected by a reduction in raw material and overhead (natural gas and maintenance) costs while tax credits recognized in the quarter reduced the tax rate.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in 1Q13 increased 4% to $24.6 million while parent roll (bulk tissue paper) sales decreased 6% to $2 million.

The increase in converted product sales was due to a 6% increase in tonnage shipped, partially offset by a 1% decrease in net selling price per ton. However, due to increased sales of converted products with their higher selling prices compared to parent rolls, the overall selling price per ton increased to $1,919 from $1,910. The increase in converted product shipments was primarily due to new product (paper towels) 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 increased to 24.5% from 23.8% primarily due to lower paper production costs (raw materials and overhead) and a favorable product mix. Selling, general and administrative (SG&A) expenses were relatively flat at $2.3 million. The increase in revenue gross margins on flat SG&A expenses increased operating income to $4.3 million or 16% of sales from $3.8 million or 14.9% of sales. Interest expense remained relatively flat at $93,000.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2014. As of March 30, 2013, Orchids' had a strong balance sheet with cash of $5.5 million and a debt/equity ratio of 0.2 versus 1.1 for the paper products industry.

Cash earnings of $5.1 million and a $0.9 million increase in working capital resulted in $4.2 million cash from operations in 1Q13. The changes in working capital were due mainly to increases in accounts receivable and inventories offset in part by an increase in accrued liabilities. Capital expenditures of $2.7 million and $2.3 million in dividend payments were the primary reasons for a $201,000 decrease in cash to $5.5 million as of March 30, 2013.

In 2011, Orchids paid off $17.5 million in loans under its existing credit facility and entered into a new $36 million credit agreement with JP Morgan Chase that provided for an $18 million revolving credit line (due April 2014), 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 $15.9 million as of March 30, 2013.

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 30, 2013, the company was in compliance with these covenants.

Projections

If new orders fully materialize, it could increase converted tonnage shipped by 20% or 8,800 tons in 2013. However, the company previously expected converted shipments to increase by 23% or approximately 10,000 tons. The lower expectations stem from a slower ramp-up of new business than previously anticipated. With this in mind, we have reduced our forecast to approximately 8,300 additional converted tons being shipped in 2013, down from 9,000 previously. There are no sales contracts guaranteeing these sales. However, customer order streams are fairly consistent and typically last several years. We project selling prices (converted and parent roll) to increase 2% annually through our forecast horizon as a growing economy drives increased demand.

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue ($,000)
2012			
Converted	44,167	$ 2,049	$ 90,498
Parent Roll	9,828	$ 1,049	$ 10,310
Total	53,995	$ 1,867	$ 100,808
2013			
Converted	52,500	$ 2,090	$ 109,725
Parent Roll	3,500	$ 1,070	$ 3,745
Total	56,000	$ 2,026	$ 113,470
2014			
Converted	57,800	$ 2,132	$ 123,230
Parent Roll	1,000	$ 1,091	$ 1,091
Total	58,800	$ 2,114	$ 124,321

Source: Taglich Brothers estimates

Gross margins should improve to 23.6% in 2013 as increases in higher margin converted product sales (up 19%) more than offset increasing paper costs (up 11% to $875/ton). According to IBISWorld, the large increase in paper costs will be driven by an increase in demand for paper as businesses recover. We project other variable costs in 2013 to increase in line with the historic rate of inflation. Fixed costs are projected to remain near current aggregate levels on a per ton basis.

We project gross margins of 24.6% in 2014 as converted product sales (up (10%) continue to outpace rising paper costs (up 4% to $910/ton). Other variable costs in 2014 should increase in line with the historic rate of inflation. Fixed costs are projected to remain near current aggregate levels on a per ton basis.

The table at right shows our estimated costs per ton (variable and fixed) over the past four years and our estimates for 2013 and 2014.

COGS (in thousands $) Model

	2009A	2010A	2011A	2012A	2013E	2014E
Variable cost (paper)	$ 36,497	$ 43,947	$ 46,337	$ 42,566	$ 49,000	$ 53,508
Est. variable cost (other)	$ 20,817	$ 20,334	$ 21,373	$ 21,110	$ 22,568	$ 24,402
Total est. variable costs	$ 57,314	$ 64,281	$ 67,710	$ 63,676	$ 71,568	$ 77,910
Est. fixed cost (overhead)	$ 6,939	$ 6,778	$ 7,124	$ 7,036	$ 7,550	$ 8,150
Fixed cost (depreciation)	$ 3,683	$ 5,693	$ 7,052	$ 7,541	$ 7,556	$ 7,708
Total est. fixed costs	$ 10,622	$ 12,471	$ 14,176	$ 14,577	$ 15,106	$ 15,858
COGS	$ 67,936	$ 76,752	$ 81,886	$ 78,253	$ 86,674	$ 93,768
Tons shipped	52,355	56,663	55,514	53,995	56,000	58,800
Variable (paper) costs/ton	$ 697	$ 776	$ 835	$ 788	$ 875	$ 910
Est. variable (other) cost/ton	$ 398	$ 359	$ 385	$ 391	$ 403	$ 415
Total variable costs/ton	$ 1,095	$ 1,134	$ 1,220	$ 1,179	$ 1,278	$ 1,325
Fixed costs/ton	$ 203	$ 220	$ 255	$ 270	$ 270	$ 270
Total COGS/ton	$ 1,298	$ 1,355	$ 1,475	$ 1,449	$ 1,548	$ 1,595
Gross profit	$ 28,027	$ 15,752	$ 15,957	$ 22,566	$ 26,787	$ 30,530
Gross margin	29.2%	17.0%	16.3%	22.4%	23.6%	24.6%

Source: Company filings and Taglich Brothers estimates

We project 2013 revenue of $113.5 million and net income of $11.9 million or $1.49 per share. Our revenue projection is reduced from $114 million previously to reflect lower additional converted product tonnage shipments than previously anticipated.

Our net income projection is increased from $11.6 million or $1.45 per share previously as the effective tax rate has been lowered to approximately 30% from 34% to reflect tax credits. The effective tax rate for 2013 is lower than the statutory rate because of manufacturing tax credits, an Indian lands tax credit that went into effect in 1Q13, and Oklahoma investment tax credits. Oklahoma has the largest percentage of American Indian population in the country. The federal employment tax credit is applicable to businesses located in qualifying areas that employ enrolled American Indians.

We project SG&A expenses of $9.6 million in 2013 (of which approximately 17% or $1.6 million of SG&A expenses are commission-related). Operating margins should increase to 15.2% in 2013 from 14% in 2012 due to increased tonnage of higher margin converted products. The tax rate is estimated at approximately 30%. Days sales outstanding and inventory turnover are projected to remain at 20 and 8 respectively.

For 2013 we project cash earnings of $20.5 million and a $1.7 million decrease in working capital will result in cash from operations of $22.1 million. The decrease in working capital is primarily due to increases in accounts payable, accrued liabilities and decreased taxes receivable, offset in part by increases in accounts payable and inventories. Cash from operations will more than cover $10 million of capital expenditures, a $3 million pay down of debt, and $9.3 million in dividends, increasing cash by $1.2 million to $5.5 million at December 31, 2013.

We project 2014 revenue of $124.3 million and net income of $14 million or $1.75 per share. Our revenue projection is reduced from $125.4 million previously to reflect lower additional converted product tonnage shipments. Our net income projection is increased from $13.3 million or $1.68 per share previously as the effective tax rate has been lowered to approximately 30% from 34% to reflect tax credits. Our projections are based on a further 10% increase in converted product tonnage to be shipped in 2014 (as we do not believe the 19% rate in 2013 sustainable) and minimal parent roll sales.

We project SG&A expenses of $10.4 million in 2014 (of which approximately 17% or $1.8 million of SG&A expenses are commission-related). Operating margins are projected to increase to 16.2% due to increased tonnage of higher margin converted products. The tax rate is estimated at 30%. Days sales outstanding and inventory turnover are projected to remain at 20 and 8 respectively.

For 2014 we project cash earnings of $22.1 million and a $1 million increase in working capital will result in cash from operations of $21.1 million. The increase in working capital is primarily due to increases in accounts receivables and inventories, offset in part by increases in accounts payable and accrued liabilities. Cash from operations will cover $10 million of capital expenditures, a $3 million pay down of debt, and $9.3 million in dividends, increasing cash by $118,000 to $5.6 million at December 31, 2014.

Risks

Customer concentration

Three customers (Dollar General, Family Dollar, and Wal-Mart) accounted for approximately 74% of converted product sales in 2012. 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.

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 5.6 million shares in the float with an average daily volume of approximately 26,000 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 $)

	2010A	2011A	2012A	3/13A	2013E	2014E
Cash	142	4,297	5,734	5,533	5,494	5,612
Accounts receivable	6,155	6,939	5,406	6,442	6,084	6,665
Inventories	7,595	7,811	10,275	10,872	11,380	12,312
Short term investments	9,518	2,019	5,027	5,029	5,027	5,027
Income taxes receivable	3,952	285	607	829	767	905
Prepaid expenses	538	530	637	531	717	785
Other	-	338	44	44	-	-
Deferred income taxes	790	410	393	382	393	393
Total current assets	28,690	22,629	28,123	29,662	29,862	31,700
Property, plant and equipment	93,805	92,285	91,188	92,020	91,581	93,873
Deferred debt issuance costs	76	54	47	46	35	25
Total Assets	122,571	114,968	119,358	121,728	121,478	125,598
Accounts payable	5,250	3,520	3,685	3,350	4,081	4,416
Accrued liabilities	2,269	2,615	2,832	4,008	3,187	3,492
Current portion of long-term debt	10,742	1,152	1,152	1,152	1,152	1,152
Total current liabilities	18,261	7,287	7,669	8,510	8,421	9,059
Long-term debt	16,615	16,231	15,079	14,791	12,079	9,079
Deferred income taxes	18,099	18,801	19,432	19,490	19,432	19,432
Total liabilities	52,975	42,319	42,180	42,791	39,932	37,570
Total stockholders' equity	69,596	72,649	77,178	78,937	81,547	88,028
Total liabilities & stockholders' equity	122,571	114,968	119,358	121,728	121,478	125,598

Source: Company filings and Taglich Brothers' estimates

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

	2010A	2011A	2012A	2013E	2014E
Net sales	92,504	97,843	100,819	113,459	124,300
Cost of sales	76,752	81,886	78,253	86,672	93,770
Gross profit	15,752	15,957	22,566	26,787	30,530
SG&A expenses	6,618	6,810	8,456	9,568	10,440
Operating income (loss)	9,134	9,147	14,110	17,219	20,090
Interest expense	934	647	407	303	140
Other (income) expense	(65)	(42)	302	(20)	(20)
Income (loss) before taxes	8,265	8,542	13,401	16,936	19,970
Income tax expense (benefit)	2,351	2,344	4,144	5,044	5,991
Net income (loss)	5,914	6,198	9,257	11,892	13,979
EPS	0.76	0.80	1.18	1.49	1.75
Shares Outstanding	7,755	7,722	7,832	7,974	8,000
Margin Analysis					
Gross margin	17.0%	16.3%	22.4%	23.6%	24.6%
SG&A expenses	7.2%	7.0%	8.4%	8.4%	8.4%
Operating margin	9.9%	9.3%	14.0%	15.2%	16.2%
Net margin	6.4%	6.3%	9.2%	10.5%	11.2%
Tax rate	28.4%	27.4%	30.9%	29.8%	30.0%
Year / Year Growth					
Total Revenues	(3.6%)	5.8%	3.0%	12.5%	9.6%
Net Income	(56.4%)	4.8%	49.4%	28.5%	17.6%
EPS	(59.6%)	5.3%	47.3%	26.2%	17.2%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2012, 2013, and 2014
(in thousands $)

	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13E	9/13E	12/13E	2013E	3/14E	6/14E	9/14E	12/14E	2014E
Net sales	25,727	25,279	25,778	24,035	100,819	26,609	27,000	29,900	29,950	113,459	30,400	30,850	31,300	31,750	124,300
Cost of sales	19,594	19,675	20,388	18,596	78,253	20,082	20,700	22,925	22,965	86,672	22,935	23,275	23,610	23,950	93,770
Gross profit	6,133	5,604	5,390	5,439	22,566	6,527	6,300	6,975	6,985	26,787	7,465	7,575	7,690	7,800	30,530
SG&A expenses	2,287	2,112	2,029	2,028	8,456	2,273	2,270	2,510	2,515	9,568	2,555	2,590	2,630	2,665	10,440
Operating income (loss)	3,846	3,492	3,361	3,411	14,110	4,254	4,030	4,465	4,470	17,219	4,910	4,985	5,060	5,135	20,090
Interest expense	107	102	99	99	407	93	70	70	70	303	35	35	35	35	140
Other (income) expense	(7)	323	(4)	(10)	302	(5)	(5)	(5)	(5)	(20)	(5)	(5)	(5)	(5)	(20)
Income (loss) before taxes	3,746	3,067	3,266	3,322	13,401	4,166	3,965	4,400	4,405	16,936	4,880	4,955	5,030	5,105	19,970
Income tax expense (benefit)	1,224	830	941	1,149	4,144	1,073	1,233	1,368	1,370	5,044	1,464	1,487	1,509	1,532	5,991
Net income (loss)	2,522	2,237	2,325	2,173	9,257	3,093	2,732	3,032	3,035	11,892	3,416	3,469	3,521	3,574	13,979
EPS	0.32	0.29	0.29	0.28	1.18	0.39	0.34	0.38	0.38	1.49	0.43	0.43	0.44	0.45	1.75
Shares Outstanding	7,855	7,844	7,863	7,899	7,832	7,895	8,000	8,000	8,000	7,974	8,000	8,000	8,000	8,000	8,000
Margin Analysis															
Gross margin	23.8%	22.2%	20.9%	22.6%	22.4%	24.5%	23.3%	23.3%	23.3%	23.6%	24.6%	24.6%	24.6%	24.6%	24.6%
SG&A expenses	8.9%	8.4%	7.9%	8.4%	8.4%	8.5%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
Operating margin	14.9%	13.8%	13.0%	14.2%	14.0%	16.0%	14.9%	14.9%	14.9%	15.2%	16.2%	16.2%	16.2%	16.2%	16.2%
Net margin	9.8%	8.8%	9.0%	9.0%	9.2%	11.6%	10.1%	10.1%	10.1%	10.5%	11.2%	11.2%	11.2%	11.3%	11.2%
Tax rate	32.7%	27.1%	28.8%	34.6%	30.9%	25.8%	31.1%	31.1%	31.1%	29.8%	30.0%	30.0%	30.0%	30.0%	30.0%
Year / Year Growth															
Total Revenues	13.5%	8.1%	(1.3%)	(6.4%)	3.0%	3.4%	6.8%	16.0%	24.6%	12.5%	14.2%	14.3%	4.7%	6.0%	9.6%
Net Income	306.8%	86.9%	41.2%	(20.5%)	49.4%	22.6%	22.1%	30.4%	39.7%	28.5%	10.4%	27.0%	16.1%	17.7%	17.6%
EPS	299.4%	83.6%	36.2%	(21.8%)	47.3%	22.0%	19.7%	30.7%	37.9%	26.2%	9.0%	27.0%	16.1%	17.7%	17.2%

Source: Company filings and Taglich Brothers' estimates

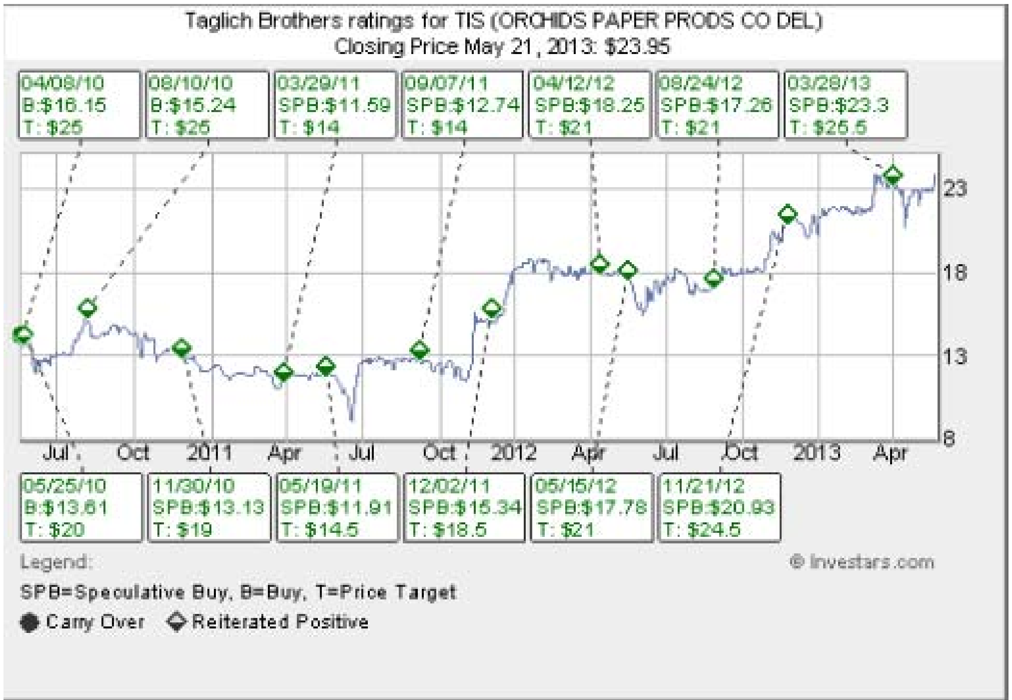
Orchids Paper Products Company

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

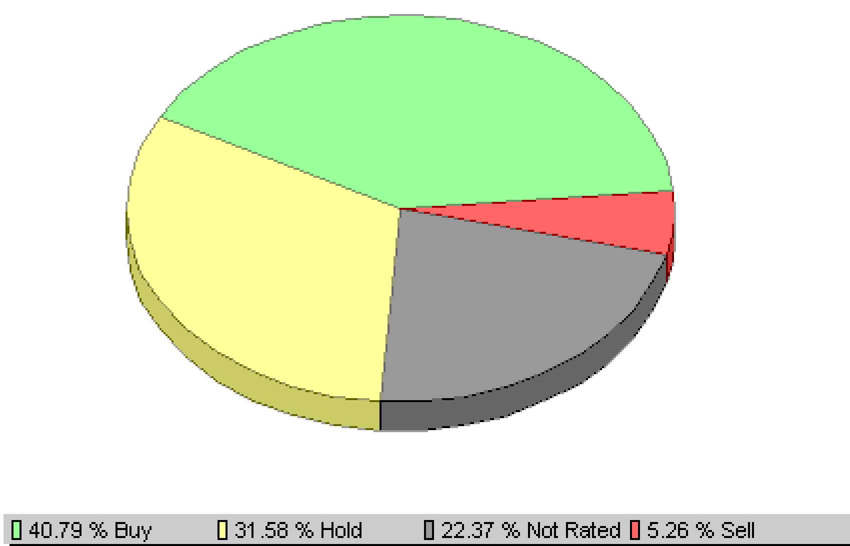
	2010A	2011A	2012A	3mos13A	2013E	2014E
Net income(loss)	5,914	6,198	9,257	3,093	11,892	13,979
Depreciation and amortization	5,725	7,132	7,548	1,895	7,556	7,708
Provision for doubful accounts	(34)	(30)	(20)	(12)	(30)	(30)
Deferred income taxes	3,519	2,359	648	68	631	-
Stock based compensation	562	290	346	69	425	450
Loss on disposal of property, plant and equipment	-	-	336	-	-	-
Changes in assets and liabilities						
Accounts receivable	629	(754)	1,553	(1,025)	(678)	(581)
Inventories	(26)	(216)	(2,464)	(597)	(1,105)	(932)
Prepaid expenses	(41)	8	(107)	107	(80)	(68)
Income taxes receivable	(3,952)	2,390	(322)	(222)	2,739	(98)
Other current assets	-	(338)	294	-	44	-
Accounts payable	1,201	(1,730)	165	(335)	396	334
Acrrued liabilities	(849)	346	217	1,177	355	305
Net Cash Provided by (Used in) Operations	12,648	15,655	17,451	4,218	22,145	21,066
Proceeds from the sale of investment securities	8,991	7,500	-	-	-	-
Purchase of investment securities	-	-	(3,008)	(2)	-	-
Purchase of property and equipment	(26,786)	(5,531)	(6,780)	(2,726)	(10,000)	(10,000)
Net Cash Provided by (Used in) Investing	(17,795)	1,969	(9,788)	(2,728)	(10,000)	(10,000)
Proceeds from issuance of stock	-	-	-	-	-	-
Borrowings under construction loan	5,197	-	-	-	-	-
Repayments on construction loan	-	-	-	-	-	-
Borrowings on long-term debt	-	18,021	-	-	-	-
Principal payments on long-term debt	(3,787)	(2,007)	(1,152)	(288)	(3,000)	(3,000)
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	(2,672)	-	-	-	-
Proceeds from the exercise of warrants attached to debentures	-	-	-	-	-	-
Proceeds from the exercise of stock options	-	303	974	799	1,000	1,000
Excess tax benefit of stock options exercised	-	15	395	135	400	400
Deferred debt issuance cost	(25)	(59)	-	-	-	-
Dividends paid	-	(3,753)	(6,443)	(2,337)	(9,348)	(9,348)
Net Cash Provided by (Used in) Financing	4,057	(13,469)	(6,226)	(1,691)	(10,948)	(10,948)
Net Change in Cash	(1,090)	4,155	1,437	(201)	1,197	118
Cash - Beginning of Period	1,232	142	4,297	5,734	4,297	5,494
Cash - End of Period	142	4,297	5,734	5,533	5,494	5,612
Cash Flow from Operations	12,648	15,655	17,451	4,218	22,145	21,066
Capital Expenditures	(26,786)	(5,531)	(6,780)	(2,726)	(10,000)	(10,000)
Free Cash Flow	(14,138)	10,124	10,671	1,492	12,145	11,066

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	4
Hold	1	17
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 407,019 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 391,438 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 167,900 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 5,000 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. 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

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.