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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: Buy

John Nobile
May 25, 2010

TIS $13.61 — (NYSE AMEX)

	2008A	2009A	2010E	2011E
Revenues (millions)	$90.2	$96.0	$92.5	$114.0
Earnings per share	$0.79	$1.89	$0.95	$1.69

52-Week range	$22.98 – $12.80	Fiscal year ends:	December
Shares outstanding as of 4/30/10	7.5 million	Revenue per share (TTM)	$12.55
Approximate float	5.8 million	Price/Sales (TTM)	1.1X
Market capitalization	$102 million	Price/Sales (FY2011)E	0.9X
Tangible book value/share	$8.63	Price/Earnings (TTM)	8.3X
Price/tangible book value	1.6X	Price/Earnings (FY2011)E	8.1X

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer, or "at home," market. The company has focused its product design and manufacturing on the discount retail market, primarily the dollar store retailers, due to their consistent order patterns, limited number of stock keeping units offered and the growth potential in this channel of the retail market. (www.orchidspaper.com)

Key investment considerations:

We are reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS) but lowering our twelve-month price target to $20.00 per share from $25.00 primarily due to lowered earnings expectations.

For 2010, we project revenue of $92.5 million and EPS of $0.95. We previously projected revenue of $102.7 million and EPS of $1.91. Our earnings expectations have decreased as rising raw material costs and promotional pricing of competitors' branded products have compressed Orchids' margins.

We project a 30% rise in sales of higher margin converted products in 2011, resulting in revenue of $114.0 million and EPS of $1.69. We previously projected revenue of $125.0 million and EPS of $2.75. We reduced our estimates due to expectations for continued margin compression stemming from competitive pressure and high waste paper prices.

Orchids' expansion project (new warehouse and converting line) should be completed by the end of Q2/10. The company took occupancy of half the new warehouse facility on April 16, 2010 and expects to occupy the remainder by July 2010. The new converting line will be capable of various packaging options and enhanced graphics and embossing which is necessary to enter the grocery store market.

Orchids reported Q1/10 sales decreased 11% to $21.0 million. Q1/10 EPS decreased to $0.18 from $0.42 in Q1/09. We projected Q1/10 sales of $23.7 million and EPS of $0.38.

Please view our disclosures starting on page 13.

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Recommendation and Valuation

We are reiterating our **Buy** rating on Orchids Paper Products but lowering our twelve-month price target to $20.00 per share from $25.00 primarily due to lowered earnings expectations.

The company's multiple has averaged 20X TTM earnings from 2005 to 2007, but averaged only 9X TTM over the last two years. We believe the stock's multiple will improve as the company's high margin converted product sales start to show significant increases and the balance sheet strengthens. Applying a multiple of 12X to our earnings per share estimate of $1.69 for 2011 gives us a price target of approximately $20.00 per share.

Business

In March 2004, Orchids Acquisition Group, Inc. acquired the company for a price of $21.6 million. Orchids Acquisition Group, Inc., formed by Taglich Brothers, Inc. and Weatherly Group, LLC to acquire all of the outstanding shares of Orchids Paper Products Company, was subsequently merged into the company. In July 2005, Orchids completed its initial public offering at $8.00 per share ($5.33 adjusted for a 3-for-2 stock split in July 2006) and began trading on the American Stock Exchange under the symbol TIS.

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer or "at home" market. The company targets the discount retail market, primarily dollar store retailers, due to their consistent order patterns, limited number of stock keeping units (SKUs) offered and the growth in this channel of the retail market. While Orchids has customers located throughout the United States, its sales efforts are focused within an area of approximately 500 miles of its northeast Oklahoma facility, which it considers to be a cost-effective shipping area.

The company's products are sold primarily under its customers' private labels and, to a lesser extent, under brand names such as Colortex® and Velvet®. Orchids does not have supply contracts with any of its customers. Because Orchids products are daily consumable items, order streams are fairly consistent with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products.

Market and Competition

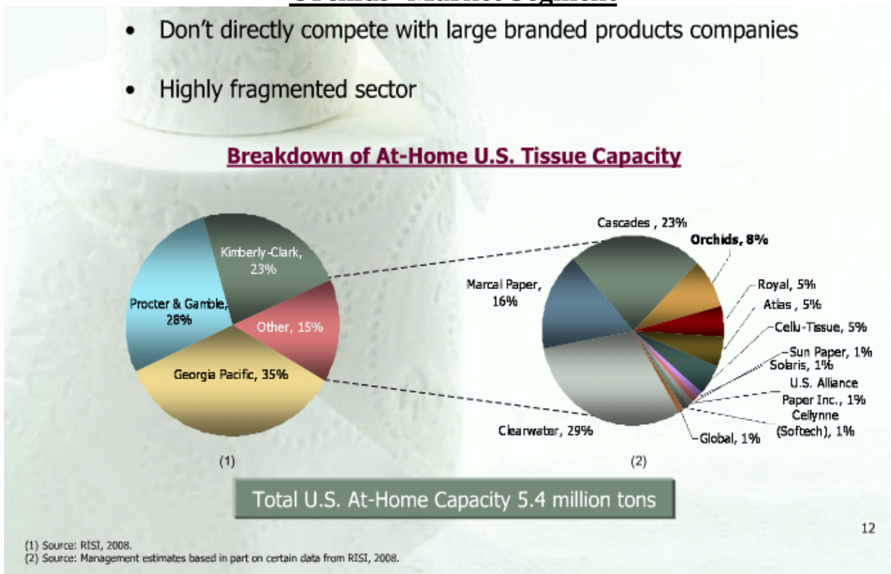
According to RISI, a leading information provider for the global forest products industry, the North American tissue market includes toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other (1%).

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

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

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' Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant are the only competitors' plants in this region. Cellu Tissue recently announced plans to construct a converting facility in Oklahoma City, Oklahoma.

Orchids' Market Segment



Source: Orchids Paper Products

1ST Quarter Financial Results

For the first quarter ended March 31, 2010 versus the same period in 2009:

- Net sales decreased 11% to $21.0 million from $23.6 million.
- Gross margins decreased to 18.4% from 27.2%.
- Selling, general and administrative (SG&A) expenses decreased to $1.7 million from $1.8 million.
- Interest expense remained relatively flat at $0.2 million.
- Net income was $1.4 million or $0.18 per diluted share versus net income of $2.8 million or $0.42 per diluted share.

We estimated first quarter net sales of $23.7 million and net income of $3.0 million or $0.38 per diluted share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased to $17.6 million from $21.1 million while parent roll (bulk tissue paper) sales increased to $3.4 million from $2.6 million. Total tons shipped increased to 13,179 from 12,429, while paper costs increased to approximately $10.5 million from approximately $8.5 million. The overall net selling price per ton decreased to $1,597 from $1,902. The decrease in total sales and net selling prices was primarily due to increased promotional pricing of competitors' branded products.

The decrease in gross margins was due to higher raw material costs and lower selling prices.

The decrease in SG&A expenses was due to lower incentive bonuses and lower commission expense due to decreased sales.

Liquidity

Orchids exhibits a healthy balance sheet. Orchids has a current ratio of 2.6 and a debt/equity ratio of 0.3. This compares to the paper products industry's current ratio of 1.7 and debt/equity ratio of 1.2. Orchids' debt of $22.4 million ($3.8 million due in less than one year) consists of a $9.7 million term loan due April 2017, a $9.0 million term loan due April 2011, and a $3.7 million term loan due November 2012. All loans have an interest rate of LIBOR plus 200 to 450 basis points (based on the ratio of funded debt to EBITDA less income tax paid) with a floor of 3.5%.

Cash flows from operating activities were $2.7 million in the first three months of 2010. Cash earnings of $2.7 million, a $0.9 million increase in inventories and a $0.6 million increase in accounts payable were the main drivers.

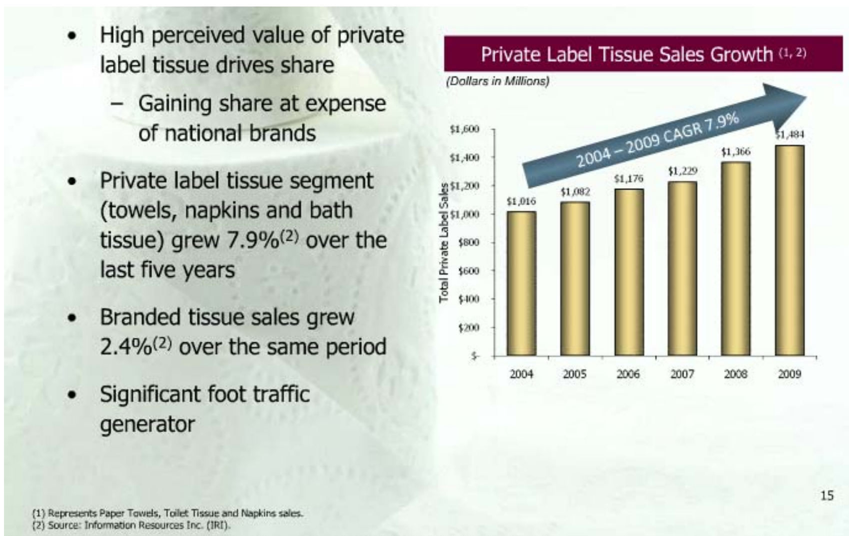
Cash flows used in investing activities were $2.4 million in the first three months of 2010 due to $7.4 million in proceeds from the sale of investment securities and $5.0 million invested in capital equipment projects.

Cash flows used in financing activities was $0.9 million in the first three months of 2010 related to principal payments on long-term debt.

In Q1/10, cash decreased by $0.6 million to $0.6 million.

Outlook

Since 2004, private label tissue sales have grown at a compound annual growth rate of almost 8% while branded tissue products have only grown at a 2.4% rate. This positive trend in private label sales bodes well for Orchids' products.



Source: Orchids Paper Products

Orchids' new warehouse and expanded converting line should start up by the end of the second quarter of 2010 and be at full capacity by the end of the third quarter of 2010.

The new converting line, which has a practical capacity of four million cases per year, will be capable of producing both bathroom tissue and towel products. It will also be capable of various packaging options and enhanced graphics and embossing, product features that will facilitate penetration of the grocery store market.

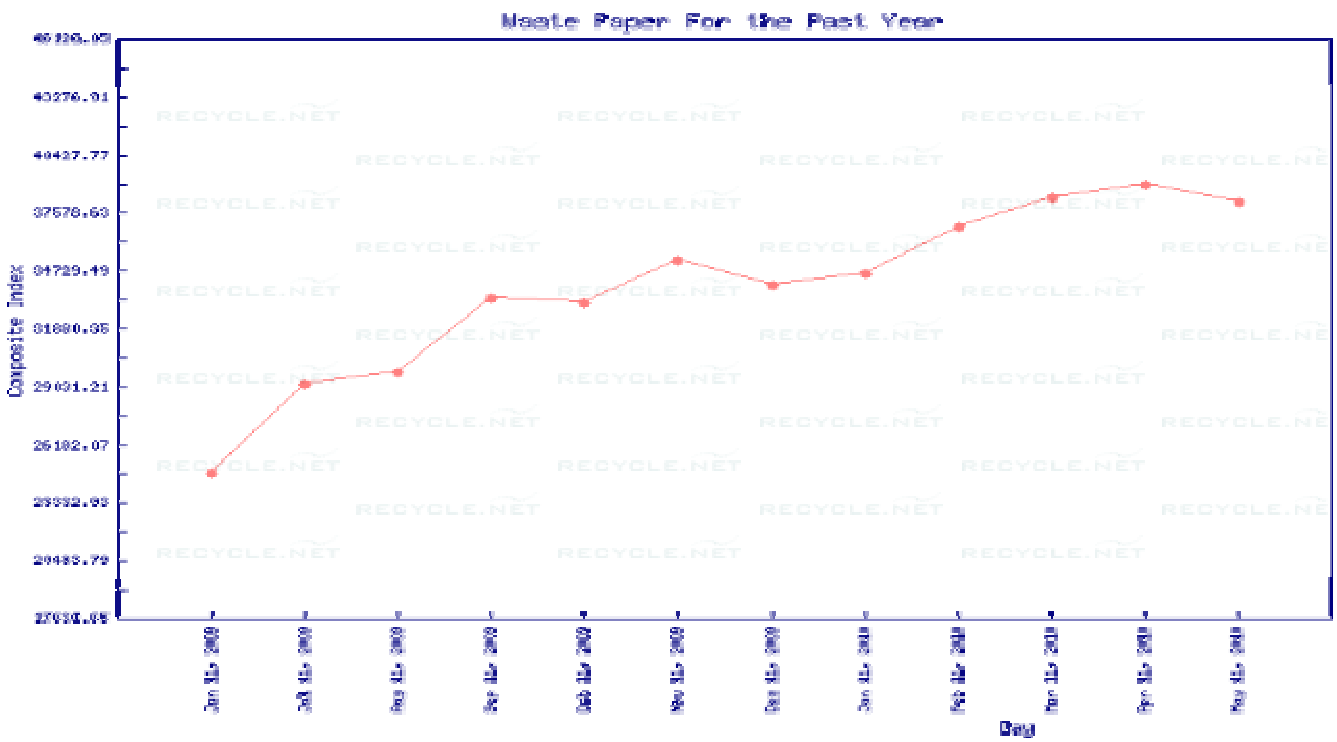
The new converting line's capacity of four million cases per year equates to approximately 26,000 additional tons of converted product. Orchid's total converted capacity with the new line should be approximately 66,000 tons annually. This means that at full capacity, the company would have to purchase approximately 12,000 parent rolls in the outside market to augment its current 54,000 ton parent roll capacity.

The additional converting capacity should support a roughly 60% increase in converted paper production. We believe that the new converting line's ability to produce a better quality product will enable the company to increase sales to grocery stores. At least two large grocery chains in Orchids' primary selling radius should absorb as much as 2/3 (2.7 million cases) of Orchids' additional capacity and the dollar stores that Orchids currently sells to aim to purchase increased volume from Orchids. Due to the company's proximity to these stores, Orchids' products should save these stores approximately 70% in shipping costs compared with current competitors' products, a significant competitive advantage.

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

Judging by a rough estimate of the size of Orchids' primary market (over 200,000 tons of converted products consumed annually based on population), we believe Orchids has the potential to eventually sell its full 60% increase in capacity. However, until we see the effect that new competition is having on Orchids' ability to price and sell products in its cost competitive area, we are projecting operating results based on a 30% increase in converted production (1/2 of new converting line's capacity). This equates to Orchids converting 100% of its current parent roll capacity into finished product.

As noted in the first quarter financial results, significant increases in waste paper prices and promotional pricing of competitors' branded products have compressed Orchids' margins. Although waste paper prices have leveled off over the past two months, the trend over the past year has been upward. We believe an improving economy will keep demand for waste paper high resulting in waste paper prices at or above current high levels.



Source: Paper Fiber Network

Regarding the effects of promotional pricing, Orchids mentioned on the conference call that promotional pricing was put in place to gain volume which will be followed by actions to increase prices in July. At Taglich Brothers' 7th annual small cap conference, Orchids said that 4% - 6% increases in overall national brand prices were expected by July 2010. Earlier in the year, Georgia-Pacific sent out letters to its customers informing them that prices were to increase by 4% effective February 22, 2010. Orchids intends to increase its product pricing in tandem with the national brand price increases.

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

Projections

We project 2010 revenue of $92.5 million and net income of $7.1 million or $0.91 per diluted share. We previously projected 2010 revenue of $102.7 million and net income of $15.0 million or $1.91 per diluted share. The decrease in our estimates is primarily due to low average selling prices in the first half of the year due to promotional pricing and the impact of increased waste paper prices on gross margins. Our projections are made on the basis that waste paper prices will stay at current elevated levels which has resulted in a substantial reduction of our gross margin estimates to 20.5% from 30.1%.

Our 2010 estimates are based on:

- Revenue ramp in the second half of the year as the new converting line becomes operational. Full capacity is projected for the end of Q3/10, but we believe the presence of new competition could hamper growth.
- SG&A expenses increasing due to increased converted product sales.
- A tax rate of 29.4%.

For 2010 we are projecting cash earnings of $16.5 million. Changes in working capital should offset each other resulting in cash from operations of approximately $16.4 million. $22.6 million of capital expenditures for facility expansion will be partially offset by $15.0 million proceeds from the sale of securities. The company plans on borrowing $5.4 million under a construction loan. A $9.9 million pay down in debt should result in cash used in financing of $4.5 million. We project a $4.3 million net increase in cash in 2010 for an ending balance of $5.5 million.

We project 2011 revenue of $114.0 million and net income of $13.2 million or $1.69 per diluted share. We previously projected 2011 revenue of $125.0 million and net income of $21.6 million or $2.75 per diluted share. The decrease in our estimates is primarily due to the dramatic effect competition has been having on selling prices and a continuation of high waste paper prices squeezing margins.

Our 2011 estimates are based on:

- A 30% increase in converted product sales due to the new converting line. Converted products should now constitute 100% of total sales.
- Gross margins of 25%, based on a price increase of 5%, a richer product mix, and a $2 million reduction in annual warehousing costs. Our projection accounts for the effect that competitive pressure and plant underutilization could have on margins.
- SG&A expenses increasing due to increased converted product sales.
- A tax rate of 29.4%.

For 2011 we are projecting cash earnings of $19.3 million. An increase in sales will increase accounts receivables, inventories, accounts payable, and accrued liabilities, resulting in cash from operations of approximately $17.8 million. We project $3.5 million of capital expenditures and a $10.0 million pay down of debt will result in a $4.3 million net increase in cash in 2011 for an ending balance of $9.8 million.

Risks

Customer concentration
A substantial percentage of Orchids' product revenues are attributable to three significant customers (Dollar General, Family Dollar, and Wal-Mart) that accounted for approximately 64% of converted product sales in 2009. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

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

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

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

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

Labor interruptions
All of Orchids' hourly paid employees are represented by a labor union. The collective bargaining agreement with Local 5-930, which represents the paper mill workers, will expire in February 2011, and the collective bargaining agreement with Local 5-1480, which represents the converting facility workers, will expire in June 2012. Negotiations of new collective bargaining agreements may result in significant increases in the cost of labor or could breakdown and result in a strike or other disruption of operations.

Unexpected shutdowns
Three of Orchids' four paper machines are approximately 50 years old. Unexpected production disruptions could cause the company to shut down its paper mill. Those disruptions could occur due to any number of circumstances, including shortages of raw materials, disruptions in the availability of transportation, labor disputes and mechanical or process failures.

Liquidity risk

Shares of TIS have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 5.8 million shares in the float with an average daily volume of approximately 50,000 shares.

Miscellaneous risks

The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2008A	2009A	3/31/2010	2010E	2011E
Assets					
Current assets:					
Cash	11	1,232	642	5,510	9,773
Accounts receivable	6,514	6,750	6,647	6,509	8,019
Inventories	6,253	7,569	8,419	8,197	9,526
Short term investments	-	18,509	13,512	3,500	3,500
Income taxes receivable	-	-	-	-	-
Prepaid expenses	399	497	396	400	525
Deferred income taxes	557	547	782	550	550
Total current assets	13,734	35,104	30,398	24,667	31,893
Property, plant and equipment	60,659	72,691	78,918	90,400	89,040
Deferred debt issuance costs	89	104	97	100	100
Total Assets	**74,482**	**107,899**	**109,413**	**115,167**	**121,033**
Liabilities & stockholders' equity					
Current liabilities:					
Accounts payable	4,699	4,049	4,665	4,385	5,096
Accrued liabilities	2,584	3,118	3,192	3,007	3,704
Current portion of long-term debt	2,998	3,742	3,772	3,700	3,700
Total current liabilities	10,281	10,909	11,629	11,092	12,500
Long-term debt	21,067	19,533	18,578	14,000	4,000
Deferred income taxes	9,572	14,337	14,617	19,100	19,600
Total liabilities	**40,920**	**44,779**	**44,824**	**44,192**	**36,100**
Total stockholders' equity	**33,562**	**63,120**	**64,589**	**70,975**	**84,933**
Total liabilities & stockholders' equity	**74,482**	**107,899**	**109,413**	**115,167**	**121,033**

Source: Company filings and Taglich Brothers' estimates

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

	2007A	2008A	2009A	2010E	2011E
Net sales	74,648	90,202	95,963	92,540	114,000
Cost of sales	63,717	75,196	67,936	73,574	85,500
Gross profit	10,931	15,006	28,027	18,966	28,500
SG&A expenses	5,234	6,259	7,343	7,635	9,000
Operating income (loss)	5,697	8,747	20,684	11,331	19,500
Interest expense	2,828	1,361	692	815	800
Other (income) expense	(36)	(10)	(24)	(59)	(60)
Income (loss) before taxes	2,905	7,396	20,016	10,575	18,760
Income tax expense (benefit)	307	2,205	6,464	3,108	5,516
Net income (loss)	2,598	5,191	13,552	7,467	13,244
Basic EPS	0.42	0.82	2.00	1.01	1.79
Diluted EPS	0.40	0.79	1.89	0.95	1.69
Basic Shares Outstanding	6,256	6,329	6,771	7,399	7,400
Diluted Shares Outstanding	6,465	6,542	7,177	7,820	7,850
Margin Analysis					
Gross margin	14.64%	16.6%	29.2%	20.5%	25.0%
SG&A expenses	7.01%	6.9%	7.7%	8.3%	7.9%
Operating margin	7.63%	9.7%	21.6%	12.2%	17.1%
Net margin	3.48%	5.8%	14.1%	8.1%	11.6%
Year / Year Growth					
Total Revenues	24.02%	20.8%	6.4%	-3.6%	23.2%
Net Income	254.92%	99.8%	161.1%	-44.9%	77.4%
EPS	260.02%	97.5%	138.0%	-49.4%	76.7%

Source: Company filings and Taglich Brothers' estimates

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

	3/09A	6/09A	9/09A	12/09A	2009A	3/10A	6/10E	9/10E	12/10E	2010E	3/11E	6/11E	9/11E	12/11E	2011E
Net sales	23,640	24,131	24,557	23,635	95,963	21,040	21,500	24,000	26,000	92,540	27,000	28,000	29,000	30,000	114,000
Cost of sales	17,208	16,303	17,128	17,297	67,936	17,179	17,415	18,960	20,020	73,574	20,250	21,000	21,750	22,500	85,500
Gross profit	6,432	7,828	7,429	6,338	28,027	3,861	4,085	5,040	5,980	18,966	6,750	7,000	7,250	7,500	28,500
SG&A expenses	1,830	2,087	1,772	1,654	7,343	1,735	1,750	2,000	2,150	7,635	2,250	2,250	2,250	2,250	9,000
Operating income (loss)	4,602	5,741	5,657	4,684	20,684	2,126	2,335	3,040	3,830	11,331	4,500	4,750	5,000	5,250	19,500
Interest expense	159	135	174	224	692	215	200	200	200	815	200	200	200	200	800
Other (income) expense	(3)	(1)	(5)	(15)	(24)	(14)	(15)	(15)	(15)	(59)	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	4,446	5,607	5,488	4,475	20,016	1,925	2,150	2,855	3,645	10,575	4,315	4,565	4,815	5,065	18,760
Income tax expense (benefit)	1,649	1,832	1,673	1,310	6,464	565	632	839	1,072	3,108	1,269	1,342	1,416	1,489	5,516
Net income (loss)	2,797	3,775	3,815	3,165	13,552	1,360	1,518	2,016	2,573	7,467	3,046	3,223	3,399	3,576	13,244
Basic EPS	0.44	0.58	0.56	0.42	2.00	0.18	0.21	0.27	0.35	1.01	0.41	0.44	0.46	0.48	1.79
Diluted EPS	0.42	0.55	0.52	0.40	1.89	0.18	0.19	0.26	0.33	0.95	0.39	0.41	0.43	0.46	1.69
Basic Shares Outstanding	6,409	6,469	6,839	7,392	6,771	7,395	7,400	7,400	7,400	7,399	7,400	7,400	7,400	7,400	7,400
Diluted Shares Outstanding	6,684	6,891	7,304	7,831	7,177	7,729	7,850	7,850	7,850	7,820	7,850	7,850	7,850	7,850	7,850
Margin Analysis															
Gross margin	27.2%	32.4%	30.3%	26.8%	29.2%	18.4%	19.0%	21.0%	23.0%	20.5%	25.0%	25.0%	25.0%	25.0%	25.0%
SG&A expenses	7.7%	8.6%	7.2%	7.0%	7.7%	8.2%	8.1%	8.3%	8.3%	8.3%	8.3%	8.0%	7.8%	7.5%	7.9%
Operating margin	19.5%	23.8%	23.0%	19.8%	21.6%	10.1%	10.9%	12.7%	14.7%	12.2%	16.7%	17.0%	17.2%	17.5%	17.1%
Net margin	11.8%	15.6%	15.5%	13.4%	14.1%	6.5%	7.1%	8.4%	9.9%	8.1%	11.3%	11.5%	11.7%	11.9%	11.6%
Year / Year Growth															
Total Revenues	16.6%	8.1%	5.3%	-2.7%	6.4%	-11.0%	-10.9%	-2.3%	10.0%	-3.6%	28.3%	30.2%	20.8%	15.4%	23.2%
Net Income	357.8%	325.6%	168.1%	39.4%	161.1%	-51.4%	-59.8%	-47.2%	-18.7%	-44.9%	124.0%	112.3%	68.6%	39.0%	77.4%
EPS	351.9%	303.1%	138.6%	15.7%	138.0%	-57.9%	-64.7%	-50.8%	-18.9%	-49.4%	123.8%	112.3%	68.6%	39.0%	76.7%

Source: Company filings and Taglich Brothers' estimates

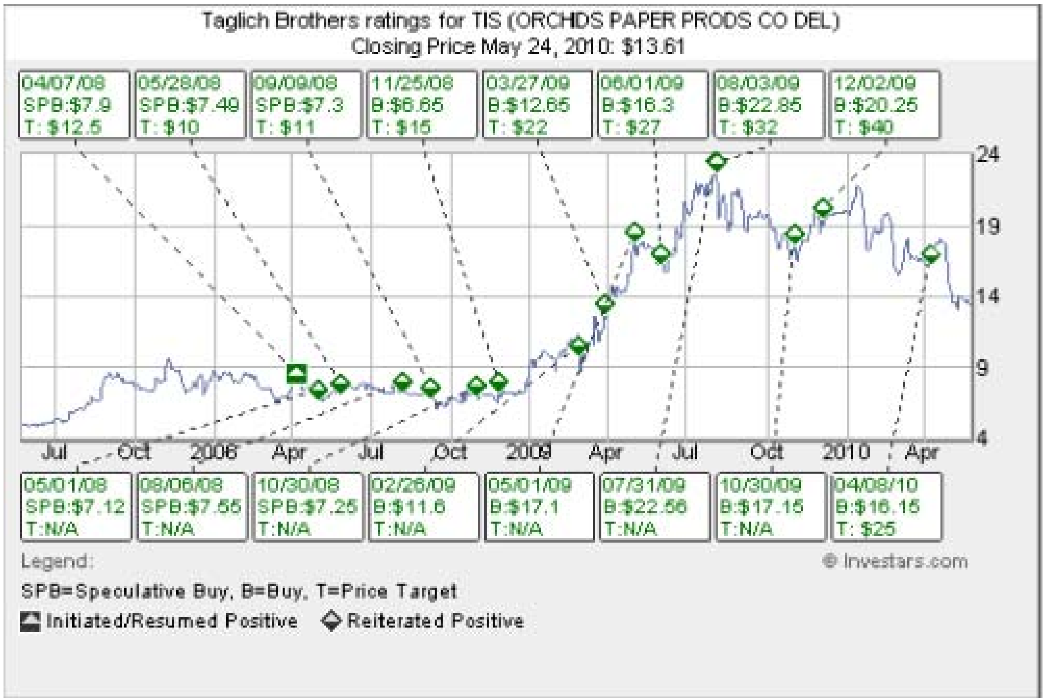
Orchids Paper Products Company

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

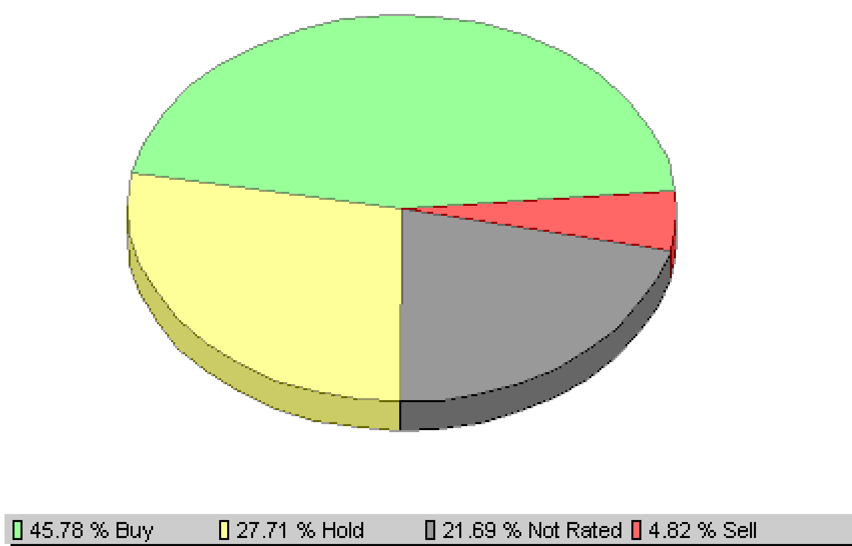
	2008A	2009A	3mos2010A	2010E	2011E
Cash Flows from Operating Activities					
Net income(loss)	5,191	13,552	1,360	7,467	13,244
Depreciation and amortization	3,156	3,708	1,138	4,860	4,860
Provision for doubful accounts	87	60	15	60	60
Deferred income taxes	2,145	4,774	45	3,500	500
Stock based compensation	313	603	109	600	600
Changes in assets and liabilities					
Accounts receivable	(1,074)	(296)	88	241	(1,509)
Inventories	(1,379)	(1,316)	(850)	(628)	(1,329)
Prepaid expenses	(18)	(98)	101	97	(28)
Income taxes receivable	24	-	-	-	-
Accounts payable	(61)	(650)	616	336	711
Acrrued liabilities	124	535	74	(111)	697
Net Cash Provided by (Used in) Operations	**8,508**	**20,872**	**2,696**	**16,421**	**17,806**
Cash Flows from Investing Activities					
Proceeds from the sale of securities and restricted CD	-	3,993	4,997	15,000	-
Purchase of investment securities	-	(22,502)	-	-	-
Purchase of property and equipment	(6,926)	(15,711)	(7,358)	(22,600)	(3,500)
Net Cash Provided by (Used in) Investing	**(6,926)**	**(34,220)**	**(2,361)**	**(7,600)**	**(3,500)**
Cash Flows from Financing Activities					
Proceeds from issuance of stock	-	14,847	-	-	-
Borrowings under construction loan	-	3,756	-	5,400	-
Repayments on construction loan	-	-	-	(6,200)	(500)
Borrowings on long-term debt	-	-	-	-	-
Retirement of borrowings on long-term debt	-	-	-	-	-
Principal payments on long-term debt	(2,286)	(3,059)	(925)	(3,700)	(9,500)
Retirment of subordinated debentures	-	-	-	-	-
Net borrowings (repayments) on revolving credit line	696	(1,487)	-	-	-
Purchase of common stock by former CEO	-	-	-	-	-
Purchase by the company of common stock from former CEO	-	-	-	-	-
Proceeds from the exercise of warrants attached to debentures	16	286	-	-	-
Proceeds from the exercise of stock options		269	-	-	-
Deferred debt issuance cost	-	(43)	-	(43)	(43)
Net Cash Provided by (Used in) Financing	**(1,574)**	**14,569**	**(925)**	**(4,543)**	**(10,043)**
Net Change in Cash	**8**	**1,221**	**(590)**	**4,278**	**4,263**
Cash - Beginning of Period	**3**	**11**	**1,232**	**1,232**	**5,510**
Cash - End of Period	**11**	**1,232**	**642**	**5,510**	**9,773**
Cash Flow from Operations	8,508	20,872	2,696	16,421	17,806
Capital Expenditures	(6,926)	(15,711)	(7,358)	(22,600)	(3,500)
Free Cash Flow	1,582	5,161	(4,662)	(6,179)	14,306

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.70%
Hold	0	0.00%
Sell	1	100.00%
Not Rated	0	0.00%

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, owns 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 and 33,477 shares of restricted stock. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 6,262 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.

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

Cellu Tissue (NYSE: CLU)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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