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 28, 2008

TIS $7.49 — (AMEX)

	FY(2006)A	FY(2007)A	FY(2008)E	FY(2009)E
Revenues (millions)	$60.2	$74.6	$84.8	$86.1
Earnings (loss) per share	$0.11	$0.40	$0.67	$0.88

52-Week range	$10.35 – $5.00	Fiscal year ends:	December
Shares outstanding as of 4/30/08	6.3 million	Revenue per share (TTM)	$12.14
Approximate float	5.1 million	Price/Sales (TTM)	0.6X
Market capitalization	$47 million	Price/Sales (FY2009)E	0.6X
Tangible book value/share	$4.54	Price/Earnings (TTM)	14.4X
Price/tangible book value	1.6X	Price/Earnings (FY2009)E	8.5X

Headquartered in Pryor, Oklahoma, Orchids Paper Products 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 being experienced in this channel of the retail market. (www.orchidspaper.com)

Key investment considerations:

We are maintaining coverage of Orchids Paper Products Company (AMEX: TIS) with a Speculative Buy rating and setting a twelve-month price target of $10.00 per share. Our price target has been lowered since our last report ($12.50) due to a valuation on reduced estimates.

On April 30, 2008, Orchids reported that first quarter net sales increased 22% to $20.3 million from $16.6 million and net income increased to $0.6 million or $0.09 per diluted share versus a net loss of $0.1 million or $(0.02) per share.

The Company said that waste paper prices increased by 22% in the first quarter of 2008 versus the same period in 2007 which resulted in approximately $1 million of increased costs. Although it is difficult for Orchids to increase prices, it had begun taking action in its product pricing and product content in an effort to counteract waste paper and other cost increases. With this in mind, we have lowered our margins substantially for the second quarter and full year but we believe that the Company's recent actions should result in a sequential improvement in margins from the second quarter on.

We are projecting Orchids' revenue in fiscal 2008 to increase 14% to $84.8 million and net income to increase 67% to $4.4 million or $0.67 per diluted share. We believe Orchids will generate $8.3 million cash from operations in fiscal 2008. Our previous projections called for fiscal 2008 revenue of $83.3 million, cash flow of $9.9 million, and net income of $6.0 million or $0.92 per diluted share.

We are introducing estimates for fiscal 2009 calling for Orchids' revenue to increase to $86.1 million, cash flow of $9.6 million, and net income of $5.7 million or $0.88 per diluted share.

****Please view our disclaimer located on page 12.***

Business

In March 2004, Orchids Acquisition Group, Inc. acquired the Company for a price of $21.6 million. 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 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.

Headquartered in Pryor, Oklahoma, Orchids Paper Products 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 (SKUs) offered and the growth being experienced in this channel of the retail market. While Orchids has customers located throughout the United States, it distributes most of its products within approximately 900 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®. Revenue is derived pursuant to truck load purchase orders and is recognized when title passes to the customer. 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

As one would imagine, the US tissue market is a very large market. According to Tissue World Magazine, the US tissue market was a $12.3 billion market in 2006 and is projected to grow at a compound annual growth rate of approximately 1.5% into 2011.

Although the overall tissue market in the US is projected to grow minimally over the next five years, by 2011, non-grocery retailers, like the dollar stores that Orchids sells to, are projected to take an additional 20%[1] of the market share away from traditional grocery retailers.

ACNielsen (the world's leading marketing information company) reported that paper products represent the second best selling items at dollar stores based on dollar sales.

During the past few years, dollar store expansion has occurred at a remarkable pace and this expansion shows no sign of slowing. Dollar stores' consumer bases have grown due to higher fuel costs, which continue to impact the economy and consumer spending.

Higher income consumers are increasingly looking to dollar stores to save money as gas prices continue to grow. In fact, the oldest single-price retail chain in the United States, 99 Cents Only, boasts that its most popular store is in Beverly Hills, where the majority of consumers earn very high incomes.

1. Overview of the Retail Dollar Store Market in the United States, Opportunities for Canadian Agri-food Exporters, Government of Canada, July 2007

1st Quarter Financial Results

For the first quarter ended March 31, 2008 versus the same period in 2007:

- Net sales increased 22% to $20.3 million from $16.6 million.
- Gross margins increased to 13.3% from 10.4%.
- Selling, general and administrative (SG&A) expenses increased to $1.4 million from $1.1 million.
- Net income was $0.6 million or $0.09 per diluted share versus a net loss of $0.1 million or $(0.02) per share.

In comparison, Taglich Brothers' estimates called for first quarter net sales of $20.6 million and net income of $1.4 million or $0.21 per diluted share.

The increase in net sales was primarily the result of a more than two-fold increase in the shipment of parent rolls and a 9% increase in the net selling price per ton of converted product shipments and, to a lesser extent, a 20% increase in the selling price of parent rolls. Total shipments in the 2008 quarter increased by 1,801 tons, or 16%, to 12,962 tons compared to 11,161 tons in the same period of 2007, primarily due to higher levels of parent roll shipments. Shipments of converted product increased 2% in the first quarter of 2008 compared to the prior year quarter. The overall net selling price per ton increased by 5% in the first quarter of 2008 to $1,564 compared to the prior year quarter. This increase was negatively affected by the increased sales of parent rolls, which are sold at lower prices than converted products.

The increase in gross margins was due to higher selling prices and higher tonnage volumes, which were partially offset by higher waste paper costs and the effects of an unplanned paper machine shutdown. The unplanned shutdown resulted in approximately $0.3 million of lost production and certain related out of pocket expenses.

The increase in SG&A expenses was primarily due to higher accruals under the Company's incentive bonus plan, higher costs associated with additions to the senior management team and increased legal and other professional fees.

Balance Sheet

As of March 31, 2008, the Company's cash balance was $3 thousand. Orchids had working capital of $3.7 million, long-term debt of $23.9 million with the majority maturing by April 2011, current portion of long-term debt of $2.4 million, and a tangible book value of $4.54 per share. The Company generated approximately $1.7 million cash from operations during the first three months of fiscal 2008. Taglich Brothers defines cash flow as net income plus non-cash charges.

On March 6, 2008, the Company amended its credit agreement with its existing bank group with the following terms:

- an $8.0 million revolving credit facility with a 3-year term ($1.37 million outstanding at March 31, 2008, including $0.489 million of bank overdrafts);

- a $10.0 million Term Loan A with a ten-year term, no principal repayments for the first 24 months and then will be amortized as if it had an 18-year life ($10.0 million outstanding at March 31, 2008);

- a $16.5 million Term Loan B with a four year-term and is being amortized as if it had a six-year life ($14.4 million outstanding at March 31, 2008); and

- a $3.0 million capital expenditures facility with a four-year term that will be amortized as if it had a five-year life ($0 outstanding at March 31, 2008).

The Company's credit facilities will be used to fund an automation project in the Company's converting facility and to expand the Company's wastewater pre-treatment. Details of these projects are outlined below:

Automation project - The converting automation project will involve the purchase and installation of case packers, conveyors and case unitizing equipment, which will reduce the amount of manual labor required in the operation. Equipment installation will begin in the second quarter of 2008 with completion expected by the fourth quarter of 2008. The Company plans to finance the $4.75 million project with a combination of cash generated from operations and borrowings under the revolving credit facility.

Wastewater pre-treatment expansion - A new water discharge permit was issued effective August 1, 2007 which requires Orchids to expand its existing pre-treatment facility to reduce biological oxygen demand and total suspended solids from its effluent stream. Under the new permit, Orchids is required to complete the expansion and make operational its pre-treatment facility by August 1, 2009. The project is in the pre-engineering phase and expected to cost approximately $3 million.

We believe that although the Company currently has virtually no cash, its positive cash flow and current credit arrangement will be sufficient to fund the Company's operations for next twelve months.

Discussion

As mentioned earlier, the unplanned shutdown for 3 days resulted in Orchids losing approximately $0.3 million in production during the first quarter. This shutdown also increased production costs by approximately $0.2 million. We believe that if one excludes the effects of this shutdown, first quarter gross margins would have been approximately 15.6%.

In its first quarter earnings release, the Company said that waste paper prices increased by 22% in the first quarter of 2008 versus the same period in 2007 which resulted in approximately $1 million of increased costs. In its 1st quarter 10-Q filing with the SEC, Orchids stated that the private label of the tissue industry is highly competitive and that discount retail customers are extremely price sensitive. As a result, Orchids said it was difficult to increase prices and expects these competitive conditions to continue. However, Orchids said that it had begun taking action in its product pricing and product content in an effort to counteract waste paper and other cost increases. With this in mind, we have lowered our margins substantially for the second quarter (from 17.4% to 16.2%) and full year (from 17.6% to 15.7%) but we also believe that the Company's recent actions should result in a sequential improvement in margins from the second quarter on.

Orchids is also continuing its effort to reduce operating costs by focusing on continuous improvement efforts in productivity and the cost effectiveness of its production lines. In March 2008, Orchids announced a capital project to automate certain processes in its converting operations totaling approximately $4.75 million in fiscal year 2008. The converting automation project will involve the purchase and installation of case packers, conveyors and case unitizing equipment, which will reduce the amount of manual labor required in the operation. Equipment installation will begin in the second quarter with completion expected by the fourth quarter of 2008. Management expects this automation project to be a major contributor to its cost reduction efforts in fiscal 2008.

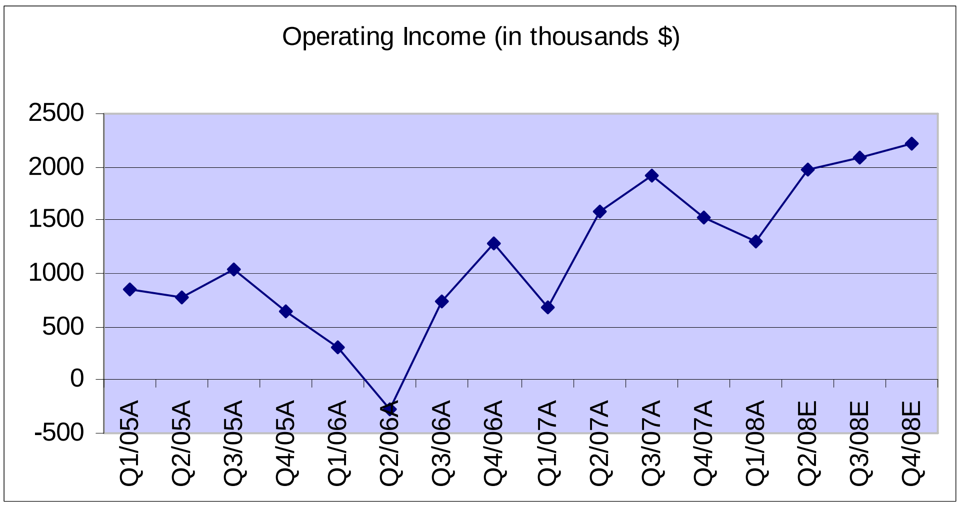
Projections

As mentioned earlier, Orchids' total tonnage shipped increased by 16% in the first quarter of fiscal 2008 while converted tonnage increased by 2%. On the first quarter conference call, Management said it felt comfortable with approximately 5% growth in converted product shipment in 2008. We believe that with the current rate of growth in tonnage shipped and assuming a 5% growth rate in converted product shipments, Orchids will reach its capacity in terms of tonnage shipped (54,000 tons annually) in 2008 and will reach a 100% conversion rate in 2013.

In the first quarter of 2008, Orchids converted approximately 76% of its total tonnage into finished product. We continue to believe that as Orchids' conversion rate increases; gross margins will continue to expand resulting in significant growth to the bottom line. Also helping to boost Orchids' bottom line are price increases for tissue products in general. One major player in the industry is Kimberly-Clark (the largest rolled bathroom tissue manufacturer in the world), who said that its net selling prices in 2008 are anticipated to rise 1 to 2 percent. We believe this should help Orchids to raise prices accordingly.

We are projecting Orchids' revenue in fiscal 2008 to increase 14% to $84.8 million and net income to increase 67% to $4.4 million or $0.67 per diluted share. We believe Orchids will generate $8.3 million cash from operations in fiscal 2008. Our previous projections called for fiscal 2008 revenue of $83.3 million, cash flow of $9.9 million, and net income of $6.0 million or $0.92 per diluted share. The increase in our revenue estimates is primarily due to the higher than expected average selling prices in the first quarter of 2008.

Listed below is a chart showing Orchids' growth in operating income throughout the past few years along with our estimates for 2008:



Source: Company filings and Taglich Brothers' estimates

Our fiscal 2008 estimates are made with the following assumptions:

- Orchids operating at 100% manufacturing capacity
- 42,450 tons converted for a conversion rate of approximately 79%
- Average selling price of $1,570 which is in-line with the most recent quarter's average selling price
- Gross margins firming to 15.7% (albeit lower than our previous estimates of 17.6%) as a greater percentage of parent rolls are converted into finished product
- SG&A expenses increasing on an absolute basis but decreasing as a percentage of sales as the Company focuses on reducing operating costs.
- An effective tax rate of 27% as the Company had guided in its 10-Q filing due to the state of Oklahoma's investment tax credits associated with the investment in a new paper machine in the third quarter of 2006. The investment tax credit is earned ratably over a five year period of which Orchids expects to claim $0.7 million in each of the next few years.

We are introducing estimates for fiscal 2009 calling for Orchids' revenue to increase to $86.1 million, cash flow of $9.6 million, and net income of $5.7 million or $0.88 per diluted share. Our fiscal 2009 estimates are made with the assumption that average selling prices will increase at a rate of 1.5% annually, gross margins will continue to expand (to 17.7%) as the Company converts a greater percentage of product, and operating expenses will flatten as the Company continues to operate at maximum capacity while keeping an eye on operating costs.

Risks

Competition

Orchids faces intense competition and if it cannot successfully compete in the marketplace, its business, financial condition and operating results may be materially adversely affected. The Company's ability to compete successfully depends upon a variety of factors, including:

- aggressive pricing by competitors, which may force Orchids to decrease prices in order to maintain market share;
- the Company's ability to improve plant efficiencies and operating rates and lower manufacturing costs;
- the availability, quality and cost of raw materials, particularly recycled waste paper and labor; and
- the cost of energy.

Customer concentration

A substantial percentage of Orchids' product revenues are attributable to four significant customers. During the three months ended March 31, 2008, sales to the four significant customers accounted for approximately 65% of the Company's total sales. The Company expects that sales to a limited number of customers will continue to account for a substantial portion of its revenues for the foreseeable future. Sales to these customers are made pursuant to purchase orders and not supply agreements. Orchids may not be able to keep its key customers or these customers may cancel purchase orders or reschedule or decrease their level of purchases from the Company. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Significant indebtedness

Orchids has significant indebtedness which limits its free cash flow and subjects the Company to restrictive covenants relating to the operation of its business. At March 31, 2008, Orchids had $26.3 million of indebtedness. Operating with this amount of leverage requires the Company to direct a significant portion of its cash flow from operations to make payments on its debt, which reduces the funds otherwise available for operations, capital expenditures, future business opportunities and other purposes.

Cost of energy

The availability of and prices for energy will significantly impact Orchids' business. All of the energy necessary to produce its paper products is purchased on the open market and, as a result, the price and other terms of those purchases are subject to change based on factors such as worldwide supply and demand and government regulation.

Orchids relies primarily on natural gas and electric energy. In particular, natural gas prices are highly volatile. The Company's consumption of both natural gas and electricity increased substantially following the start-up of its new paper machine in mid-2006. If energy costs increase, Orchids' cost of sales will increase, and its operating results may be materially adversely affected. Furthermore, the Company may not be able to pass increased energy costs on to its customers if the market does not allow it to raise the prices of its finished products.

Interest rate exposure

Orchids' market risks relate primarily to changes in interest rates. The Company's revolving line of credit and term loans carry a variable interest rate that is tied to market indices and, therefore, statements of income and cash flows will be exposed to changes in interest rates. As of March 31, 2008, Orchids had floating-rate borrowings of $25.8 million. Outstanding balances under its line of credit and term loans bear interest at the prime rate or LIBOR, plus a margin based upon the debt service coverage ratio. Based on the current borrowings, a 100 basis point increase in interest rates would result in a $258,000 increase to annual interest expense.

Dependence on Management

Orchids is highly dependent on the principal members of its Management, in particular Robert Snyder, President and Chief Executive Officer, and Keith Schroeder, Chief Financial Officer. The Company has entered into employment agreements with Robert Snyder and Keith Schroeder that expire in 2012 and 2009, respectively. Mr. Snyder was recently appointed President and Chief Executive Officer following the retirement of Michael Sage in July 2007. While Mr. Snyder has extensive management experience in the paper industry, this is his first appointment as Chief Executive Officer and he has no prior experience at the Company. If Orchids is unable to retain Mr. Snyder and Mr. Schroeder or to attract and retain other qualified personnel, its business and ability to compete could be significantly harmed.

Labor interruptions

All of Orchids' hourly paid employees are represented by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Service Workers International 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 2010.

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 our operations. If any of the preceding were to occur, it could impair the Company's ability to manufacture products and result in increased costs and/or decreased operating results. In addition, some of Orchids' key customers and suppliers are also unionized. Disruption in their labor relations could also have an adverse effect on Orchids' business.

Substantial capital requirements

Orchids' operations require substantial capital. For example, under new environmental standards, the Company is required to build a water treatment facility costing approximately $3 million to reduce biological oxygen demand and total suspended solids from its discharge water. In addition, Orchids plans to install equipment that automates certain portions of its converting plant processes at a cost of $4.75 million in 2008. The Company may also need to acquire additional converting equipment to utilize its excess parent roll capacity and to supply new customers, which it currently estimates would cost $10 million to $15 million. If Orchids' capital resources are inadequate to provide for its operating needs, capital expenditures and other cash requirements, this shortfall could have a material adverse effect on its business and liquidity.

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 5.1 million shares in the float with an average daily volume of approximately 1,400 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.

Conclusion and Valuation

We are maintaining coverage of Orchids Paper Products Company (AMEX: TIS) with a Speculative Buy rating.

An unplanned shutdown for 3 days resulted in Orchids losing approximately $0.3 million in production during the first quarter and increased production costs by approximately $0.2 million. We believe that if one excludes the effects of this shutdown, first quarter gross margins would have been approximately 15.6%.

The Company said that waste paper prices increased by 22% in the first quarter of 2008 versus the same period in 2007 which resulted in approximately $1 million of increased costs. Although it is difficult for Orchids to increase prices, it had begun taking action in its product pricing and product content in an effort to counteract waste paper and other cost increases. With this in mind, we have lowered our margins substantially for the second quarter and full year but we believe that the Company's recent actions should result in a sequential improvement in margins from the second quarter on.

We also believe that as Orchids' ships a greater percentage of converted product, gross margins will benefit resulting in significant growth to the bottom line.

We are projecting Orchids' revenue in fiscal 2008 to increase 14% to $84.8 million and net income to increase 67% to $4.4 million or $0.67 per diluted share. We believe Orchids will generate $8.3 million cash from operations in fiscal 2008.

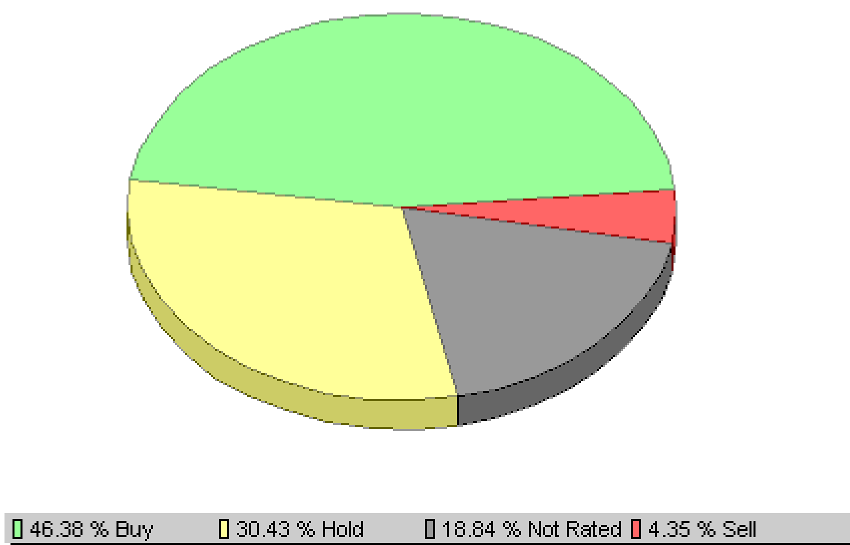
We are introducing estimates for fiscal 2009 calling for Orchids' revenue to increase to $86.1 million, cash flow of $9.6 million, and net income of $5.7 million or $0.88 per diluted share.

In order to get an appropriate multiple to apply to Orchids' earnings, we projected out several years to see what rate of growth earnings would appreciate at. We made the following assumptions in our forecast:

- manufacturing at maximum capacity during this time frame;
- converted product increasing at a rate of 5% annually;
- average selling prices increasing at a rate of 1.5% annually;
- gross margins increasing to 23% by 2013 when we believe Orchids will be at a 100% product conversion rate; and
- all else held constant.

With these assumptions, our projected average annual earnings growth rate was approximately 15%. Assuming a PEG ratio of 1 applied to our discounted fiscal 2009 fully taxed (40% tax rate) earnings estimate of $0.69 per diluted share ($0.88 per diluted share partially taxed with no discount factor), we arrive at a **twelve-month price target of approximately $10.00 per share**. Our fiscal 2009 estimate was discounted to a twelve month value by applying a 7% discount factor. We derived this discount factor using the Capital Asset Pricing Model with a beta of 0.6 and a risk free rate of approximately 4%.

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0.00%
Hold	1	6.67%
Sell	0	0.00%
Not Rated	0	0.00%

<u>Meaning of Ratings</u>

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.

Public companies mentioned in this report:

Dollar Tree (NASDAQ: DLTR)
Family Dollar (NYSE: FDO)
99 Cents Only (NYSE: NDN)
Wal-Mart (NYSE: WMT)

* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research.

As of the date of this report, Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 414,141 shares of TIS common stock and 52,575 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 382,642 shares of TIS common stock and 52,575 warrants. Richard Oh, Director of Research and Managing Director of Taglich Brothers, Inc., owns 8,233 shares of TIS common stock and 10,000 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 103,518 shares of TIS common stock, 47,305 warrants, and 3,750 options. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 22,377 shares of TIS common stock and 39,900 warrants. Within the last three years, 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.

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.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	December 31, 2006	December 31, 2007	March 31, 2008
Assets			
Current assets:			
Cash	$ 3	$ 3	$ 3
Accounts receivable	5,089	5,527	6,837
Inventories	4,379	4,874	5,559
Restricted certificate of deposit	1,500	-	-
Income taxes receivable	1,242	24	30
Prepaid expenses	306	381	434
Deferred income taxes	346	516	516
Total current assets	12,865	11,325	13,379
Property, plant and equipment	58,039	56,856	56,461
Deferred debt issuance costs	124	122	113
Total Assets	**$ 71,028**	**$ 68,303**	**$ 69,953**
Liabilities & stockholders' equity			
Current liabilities:			
Accounts payable	$ 3,772	$ 4,760	$ 4,557
Accrued liabilities	1,805	2,460	2,694
Current portion of long-term debt	2,263	2,391	2,442
Total current liabilities	7,840	9,611	9,693
Long-term debt	31,575	23,264	23,872
Deferred income taxes	6,909	7,386	7,669
Total liabilities	**46,324**	**40,261**	**41,234**
Total stockholders' equity	**24,704**	**28,042**	**28,719**
Total liabilities & stockholders' equity	**$ 71,028**	**$ 68,303**	**$ 69,953**

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

	FY(12/05)A	FY(12/06)A	FY(12/07)A	FY(12/08)E	FY(12/09)E
Net sales	**$ 57,700**	**$ 60,190**	**$ 74,648**	**$ 84,775**	**$ 86,100**
Cost of sales	50,385	53,988	63,717	71,440	70,860
Gross profit	7,315	6,202	10,931	13,335	15,240
Selling, general and administrative expenses	4,013	4,153	5,234	5,765	5,765
Operating income (loss)	3,302	2,049	5,697	7,570	9,475
Interest expense	1,213	1,980	2,828	1,611	1,611
Other (income) expense	(102)	(99)	(36)	(1)	-
Income (loss) before taxes	2,191	168	2,905	5,960	7,864
Income tax expense (benefit)	799	(564)	307	1,610	2,123
Net income (loss)	**$ 1,392**	**$ 732**	**$ 2,598**	**$ 4,350**	**$ 5,741**
Basic EPS	**$ 0.31**	**$ 0.12**	**$ 0.42**	**$ 0.69**	**$ 0.91**
Diluted EPS	**$ 0.30**	**$ 0.11**	**$ 0.40**	**$ 0.67**	**$ 0.88**
Basic Shares Outstanding	4,453	6,234	6,256	6,329	6,330
Diluted Shares Outstanding	4,594	6,558	6,465	6,536	6,540
Margin Analysis					
Gross margin	12.68%	10.30%	14.64%	15.73%	17.70%
Selling, general and administrative	6.95%	6.90%	7.01%	6.80%	6.70%
Operating margin	5.72%	3.40%	7.63%	8.93%	11.00%
Net margin	2.41%	1.22%	3.48%	5.13%	6.67%
Year / Year Growth					
Total Revenues		4.32%	24.02%	13.57%	1.56%
Net Income		-47.41%	254.92%	67.44%	31.98%
EPS		-63.16%	260.02%	65.62%	31.90%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ended December 31, 2007
(in thousands $)

	Q1(3/07)A	Q2(6/07)A	Q3(9/07)A	Q4(12/07)A	FY(12/07)A
Net sales	**$ 16,637**	**$ 18,515**	**$ 19,218**	**$ 20,278**	**$ 74,648**
Cost of sales	14,905	15,762	15,997	17,053	63,717
Gross profit	1,732	2,753	3,221	3,225	10,931
Selling, general and administrative expenses	1,059	1,170	1,296	1,709	5,234
Operating income (loss)	673	1,583	1,925	1,516	5,697
Interest expense	873	708	635	612	2,828
Other (income) expense	(20)	(7)	(2)	(7)	(36)
Income (loss) before taxes	(180)	882	1,292	911	2,905
Income tax expense (benefit)	(49)	139	156	61	307
Net income (loss)	**$ (131)**	**$ 743**	**$ 1,136**	**$ 850**	**$ 2,598**
Basic EPS	**$ (0.02)**	**$ 0.12**	**$ 0.18**	**$ 0.14**	**$ 0.42**
Diluted EPS	**$ (0.02)**	**$ 0.12**	**$ 0.18**	**$ 0.13**	**$ 0.40**
Basic Shares Outstanding	6,234	6,234	6,234	6,256	6,256
Diluted Shares Outstanding	6,234	6,344	6,421	6,465	6,465
Margin Analysis					
Gross margin	10.41%	14.87%	16.76%	15.90%	14.64%
Selling, general and administrative	6.37%	6.32%	6.74%	8.43%	7.01%
Operating margin	4.05%	8.55%	10.02%	7.48%	7.63%
Net margin	-0.79%	4.01%	5.91%	4.19%	3.48%
Year / Year Growth					
Total Revenues	18.00%	35.39%	26.82%	17.47%	24.02%
Net Income	-171.98%	353.58%	852.32%	-14.49%	254.92%
EPS	-174.78%	349.19%	830.41%	-13.26%	260.02%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ending December 31, 2008
(in thousands $)

	Q1(3/08)A	Q2(6/08)E	Q3(9/08)E	Q4(12/08)E	FY(12/08)E
Net sales	**$ 20,275**	**$ 20,900**	**$ 21,500**	**$ 22,100**	**$ 84,775**
Cost of sales	17,586	17,514	17,953	18,387	71,440
Gross profit	2,689	3,386	3,547	3,713	13,335
Selling, general and administrative expenses	1,385	1,420	1,460	1,500	5,765
Operating income (loss)	1,304	1,966	2,087	2,213	7,570
Interest expense	411	400	400	400	1,611
Other (income) expense	(1)	-	-	-	(1)
Income (loss) before taxes	894	1,566	1,687	1,813	5,960
Income tax expense (benefit)	283	410	442	475	1,610
Net income (loss)	**$ 611**	**$ 1,156**	**$ 1,245**	**$ 1,338**	**$ 4,350**
Basic EPS	**$ 0.10**	**$ 0.18**	**$ 0.20**	**$ 0.21**	**$ 0.69**
Diluted EPS	**$ 0.09**	**$ 0.18**	**$ 0.19**	**$ 0.20**	**$ 0.67**
Basic Shares Outstanding	6,327	6,330	6,330	6,330	6,329
Diluted Shares Outstanding	6,554	6,530	6,530	6,530	6,536
<u>Margin Analysis</u>					
Gross margin	13.26%	16.20%	16.50%	16.80%	15.73%
Selling, general and administrative	6.83%	6.79%	6.79%	6.79%	6.80%
Operating margin	6.43%	9.41%	9.71%	10.01%	8.93%
Net margin	3.01%	5.53%	5.79%	6.05%	5.13%
<u>Year / Year Growth</u>					
Total Revenues	21.87%	12.88%	11.87%	8.99%	13.57%
Net Income	566.41%	55.59%	9.60%	57.41%	67.44%
EPS	543.64%	51.15%	7.77%	55.84%	65.62%

Orchids Paper Products Company

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

	FY2006	FY2007	3mos2008
Cash Flows from Operating Activities			
Net income(loss)	$ 732	$ 2,598	$ 611
Depreciation and amortization	2,472	3,222	763
Provision for doubful accounts	(19)	-	15
Deferred income taxes	483	307	283
Stock based compensation	260	402	51
Foreign currency transaction gain (loss)	35	-	-
Unrealized gain (loss) on foreign exchange contracts	(74)	-	-
Changes in assets and liabilities			
Accounts receivable	(890)	(438)	(1,325)
Inventories	41	(495)	(685)
Prepaid expenses	152	(75)	(53)
Income taxes receivable	(1,148)	1,218	(6)
Accounts payable	895	988	(203)
Acrrued liabilities	(332)	655	234
Net Cash Provided by (Used in) Operations	**2,607**	**8,382**	**(315)**
Cash Flows from Investing Activities			
Purchases of securities and restricted CD	-	-	-
Proceeds from the sale of securities and restricted CD	-	1,500	-
Purchase of property and equipment	(18,133)	(1,818)	(359)
Net Cash Provided by (Used in) Investing	**(18,133)**	**(318)**	**(359)**
Cash Flows from Financing Activities			
Proceeds from the issuance of common stock	-	-	-
Cost of common staock and warrants issued	-	-	-
Borrowings on long-term debt	15,000	26,500	-
Retirement of borrowings on long-term debt	-	(25,866)	-
Principal payments on long-term debt	(1,586)	(2,472)	(413)
Retirment of subordinated debentures	-	(2,150)	-
Net borrowings (repayments) on revolving credit line	1,767	(4,270)	1,072
Purchase of common stock by former CEO	-	743	-
Purchase by the Company of common stock from former CEO	-	(405)	-
Proceeds from the exercise of warrants attached to debentures	-	-	15
Deferred debt issuance cost	(30)	(144)	-
Net Cash Provided by (Used in) Financing	**15,151**	**(8,064)**	**674**
Net Change in Cash	**(375)**	**-**	**-**
Cash - Beginning of Period	**378**	**3**	**3**
Cash - End of Period	**$ 3**	**$ 3**	**$ 3**