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
June 1, 2009

TIS $16.30 — (NYSE AMEX)

	FY(2007)A	FY(2008)A	FY(2009)E	FY(2010)E
Revenues (millions)	$74.6	$90.2	$102.0	$108.0
Earnings per share	$0.40	$0.79	$1.90	$2.11

52-Week range	$18.15 – $5.95	Fiscal year ends:	December
Shares outstanding as of 4/30/09	6.5 million	Revenue per share (TTM)	$14.22
Approximate float	4.9 million	Price/Sales (TTM)	1.1X
Market capitalization	$106 million	Price/Sales (FY2010)E	1.0X
Tangible book value/share	$5.69	Price/Earnings (TTM)	14.4X
Price/tangible book value	2.9X	Price/Earnings (FY2010)E	7.7X

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 reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS) and increasing our twelve-month price target to $27.00 per share (previously $22.00) based on increased earnings estimates. The Company has managed to post impressive results despite the struggling economy.

On April 29, 2009, Orchids reported that first quarter net sales increased 17% to $23.6 million from $20.3 million and net income increased to $2.8 million or $0.42 per diluted share versus net income of $0.6 million or $0.09 per diluted share.

At the Taglich Brothers 6th Annual Small Cap Equity Conference in May 2009, Management said it believed it could increase converting efficiency by at least 8% in 2009. We had previously modeled for a 10% increase in converting efficiency.

Because of Management's comments, we reduced our net sales estimates, however; we increased our gross margins which resulted in an increase to the bottom line. The recent improvement in margins exceeded our expectations and Management believes the current level of gross margins is sustainable.

We are projecting Orchids' revenue in fiscal 2009 to increase to $102.0 million and net income to increase to $12.7 million or $1.90 per diluted share. We believe Orchids will generate $19.9 million cash from operations in fiscal 2009. Our previous projections called for fiscal 2009 revenue of $104.0 million, cash flow of $15.5 million, and net income of $11.4 million or $1.73 per diluted share. We are introducing estimates for fiscal 2010 with the assumption that the Company will maintain 8% converted product growth. For fiscal 2010, we estimate Orchids will generate $108.0 million revenue, $21.3 million cash from operations, and report net income of $14.1 million or $2.11 per diluted share.

****Please view our disclaimer located on page 11.***

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

The US tissue market is a very large market. According to Tissue World Magazine, the US tissue market was almost a $13 billion market in 2007. In October 2008, RISI (an information provider for the global forest products industry) reported that the United States remained the largest single market because of its continued growth in per capita consumption. RISI said that the North American tissue market was comprised of toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%) and other users, including sanitary (1%).

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

In May 2009, the Nielsen Company (a global information and media company) reported that dollar stores have been a destination for basic household products in the recession and that one of the most commonly purchased household items at dollar stores were paper goods such as napkins and paper towels.

Nielsen reported that the economic downturn has been a boon to dollar stores, which attracted increased consumer spending in 2008, including spending among high and middle income shoppers. Nielsen’s analysis of consumer spending habits showed consumers at all income levels shopping more at dollar stores, with high income shoppers spending 18% more at dollar stores in the second half of 2008 compared to the prior year.

According to Nielsen, an estimated 65 million U.S. consumers shopped at dollar stores in 2008. It appears the trend continues upward. In May 2009, the Chicago Tribune reported that nearly half of U.S. households shop at dollar stores each month, up from 36% in 2002 according to the market research firm Retail Forward.

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, 2009 versus the same period in 2008:

- Net sales increased 17% to $23.6 million from $20.3 million.
- Gross margins increased to 27.2% from 13.3%.
- Selling, general and administrative (SG&A) expenses increased to $1.8 million from $1.4 million.
- Interest expense decreased to $0.2 million from $0.4 million.
- Net income was $2.8 million or $0.42 per diluted share versus net income of $0.6 million or $0.09 per diluted share.

In comparison, Taglich Brothers' estimates called for first quarter net sales of $24.5 million and net income of $2.5 million or $0.38 per diluted share.

Converted product sales increased to $21.1 million from $17.1 million while parent roll sales decreased to $2.6 million from $3.2 million. The increase in converted product sales was primarily due to a 23% increase in the net selling price per ton which was slightly offset by lower tonnage shipped. The decrease in parent roll sales was primarily due to a 14% decrease in tonnage shipped and a 4% decrease in the selling price per ton. Total tons shipped decreased to 12,429 from 12,962, while paper costs decreased to approximately $8.5 million from approximately $10.6 million. The overall net selling price per ton increased to $1,902 from $1,564.

The increase in gross margins was primarily due to the lower cost of waste paper and higher selling prices for converted product.

The increase in SG&A expenses was primarily due to accruals under the Company's incentive bonus program, higher commission expenses associated with the higher sales levels, increased packaging-related selling costs, and higher legal and professional fees associated with additions to senior management.

The decrease in interest expense was the result of lower LIBOR interest rates and lower margins over LIBOR reflecting Orchids' improved financial performance.

Balance Sheet

As of March 31, 2009, Orchids had $1.6 million in cash. Orchids had working capital of $4.7 million, long-term debt of $18.8 million, and a tangible book value of $5.69 per share. The Company generated approximately $4.6 million cash from operations during the first three months of fiscal 2009. Taglich Brothers defines cash flow as net income plus non-cash charges.

In November 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; ($0 outstanding at March 31, 2009)
- 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, 2009)
- a $16.5 million Term Loan B with a four year-term being amortized as if it had a six-year life; ($11.9 million outstanding at March 31, 2009) and
- a $4.0 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, 2009).

We believe that the Company's future cash from operations and current credit arrangement will be sufficient to fund the Company's current level operations for the foreseeable future.

Discussion and Projections

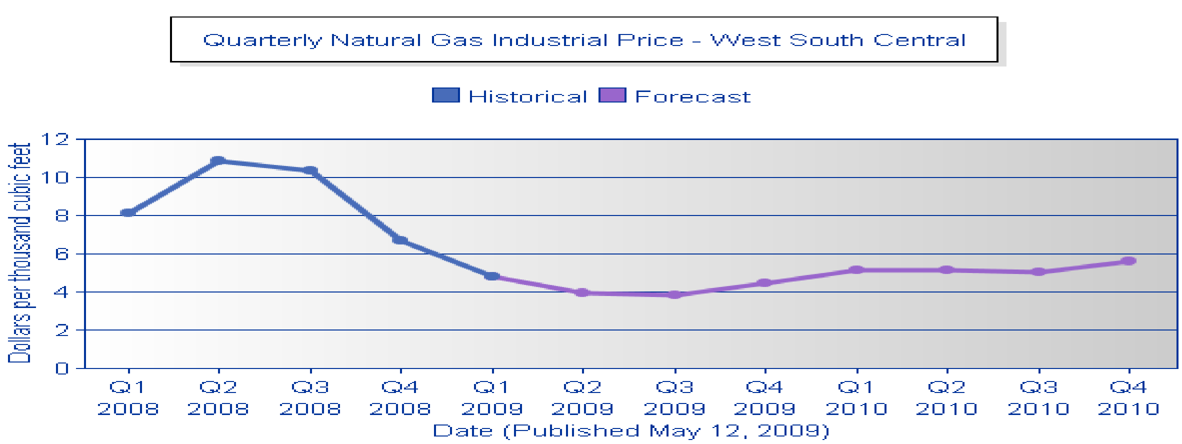
With the Company operating at near full capacity in regard to parent rolls, its strategy is to sell all of its parent roll capacity as converted products (which have higher margins than parent rolls) and has focused considerable efforts toward improving its converting efficiencies. The Company's efforts included the hiring of a productivity consultant to assist Management during the second quarter of 2008 to design and implement a management operating system and to help Management implement a new work schedule and work practices. The management operating system helped identify and confirm root causes of issues that impaired production. As a result of those efforts, converting productivity levels in the first quarter of 2009 were 19% higher than those experienced in the first eight months of 2008.

Orchids is currently reviewing its logistics operations and its strategy of using a third-party warehouse. The results of this review may indicate a need for Orchids to expand its current warehouse facility and eliminate the use of a third-party warehouse. The cost of expanding its warehouse facility is estimated at $8.0 million with funding for this project coming from cash earnings, a new borrowing agreement, or a combination of both. The Company is also studying a project to purchase a new converting line to aid in its strategy to increase sales and profitability and to consume all of its paper making production in its converting operation. This project is in the early stages of evaluation and is expected to cost between $15 million and $18 million.

At the Taglich Brothers 6th Annual Small Cap Equity Conference in May 2009, Management said it believed it could increase converting efficiency by at least 8% in 2009 but that converted product pricing had reached a plateau in the second quarter. We had previously modeled for a 10% increase in converting efficiency. Because of Management's comments, we reduced our net sales estimates, however; we increased our gross margins which resulted in an increase to the bottom line. The recent improvement in margins exceeded our expectations and during the first quarter conference call, Management said it believes the current level of gross margins is sustainable.

During the first quarter conference call, Management said that the improvement in earnings was partially due to a $1.4 million decrease in waste paper prices. Management also said that if waste paper prices held at the level it was at the time of the conference call, that second quarter waste paper prices will drop a further 10% from Q1/09 levels. In doing a proforma calculation of what we believe gross margins could have been if there was an additional 10% drop in waste paper prices in the first quarter, we believe the Company would have realized gross margins of 27.8%.

As natural gas prices are also a large factor in paper production costs, we believe the outlook for natural gas prices will be beneficial in forecasting gross margins for the Company. In May 2009, the Energy Information Administration (EIA) forecasted West South Central U.S. (includes Oklahoma) natural gas prices to remain at relatively low levels over the next two years from the high levels achieved in 2008. We believe the EIA forecast supports high gross margins going forward.



Source: Energy Information Administration

In the fourth quarter of 2008, the Company entered into a contract to purchase 334,000 MMBTU 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 amounts represent approximately 60% of the Company's natural gas requirements based upon expected usage rates for 2009.

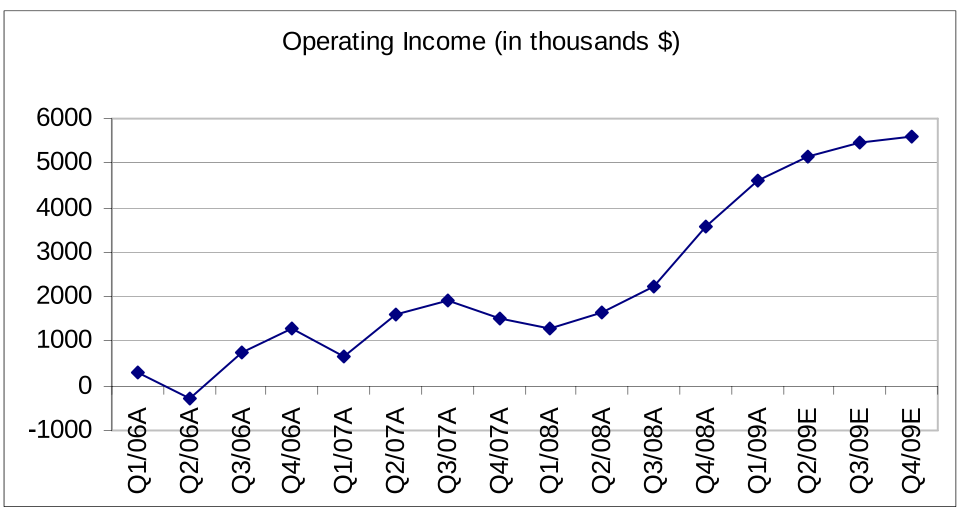
In February 2009, Management said that it completed the converting automation project. The Company previously disclosed that this project should result in reduced cash costs of approximately $2 million annually.

We are projecting Orchids' revenue in fiscal 2009 to increase to $102.0 million and net income to increase to $12.7 million or $1.90 per diluted share. We believe Orchids will generate $19.9 million cash from operations in fiscal 2009. Our previous projections called for fiscal 2009 revenue of $104.0 million, cash flow of $15.5 million, and net income of $11.4 million or $1.73 per diluted share. The decrease in our revenue estimate is primarily due to lower than anticipated revenue than we originally estimated. The increase in our earnings estimates is primarily due to better margins than we originally estimated.

Our fiscal 2009 estimates are made with the following assumptions:

- Orchids operating near 100% manufacturing capacity (for parent rolls).
- Selling prices reaching a plateau in the second quarter (as mentioned at the Taglich Conference).
- Gross margins firming to 28.1% due to a greater percentage of converted products being shipped and a full year of contribution coming from a reduction in cost of sales related to automating the converting process.
- SG&A expenses increasing due to increased converted product sales.
- A tax rate of 37% (guidance provided at the Taglich Conference). The Company's effective tax rate is lower than the statutory rate because of Oklahoma Investment Tax Credits associated with Orchids' investment in a new paper machine and the utilization of Federal Indian Employment Credits.

Listed below is a chart showing Orchids' growth in operating income throughout the past few years along with our estimates for 2009:



Source: Company filings and Taglich Brothers' estimates

We are introducing estimates for fiscal 2010 with the assumption that the Company will maintain 8% converted product growth. For fiscal 2010, we estimate Orchids will generate $108.0 million revenue, $21.3 million cash from operations, and report net income of $14.1 million or $2.11 per diluted share.

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 three significant customers (Dollar General, Family Dollar, and Wal-Mart). During the three months ended March 31, 2009, sales to the three significant customers accounted for approximately 53% 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, 2009, Orchids had $21.9 million of indebtedness of which $3.1 million was classified as current and $18.8 million as long-term. 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.

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 $4.3 million to reduce biological oxygen demand and total suspended solids from its discharge water. In 2008, Orchids spent $4.7 million on its converting automation project.

The Company's current levels of business have resulted in the necessity to utilize a third-party warehouse and Orchids may build a new warehouse adjacent to its converting facility, which it estimates would cost up to $8.0 million. In addition, the Company will likely need to acquire additional converting equipment to allow access to new markets and to consume the additional parent roll capacity from its new paper machine project which it currently estimates would cost $15 million to $18 million. If capital resources are inadequate to provide for operating needs, capital expenditures and other cash requirements, this shortfall could have a material adverse effect on Orchids' business and liquidity.

Cost of energy

The availability of and prices for energy will significantly impact Orchids' business. 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.

The parent roll market is a commodity market and subject to fluctuations in demand and pricing

Following the start-up of Orchids' new paper machine in July 2006, its parent roll production exceeded the requirements of its converting operation, which excess tonnage is sold as parent rolls. In addition, in the second quarter of 2007, due to relatively high parent roll prices, Orchids began running all of its older paper machines on a full-time basis, thereby increasing the amount of excess paper. The demand for parent rolls has been relatively high compared to supply for several years, however fluctuations in demand, primarily in the away-from-home market, can affect the supply-demand balance. A significant reduction in demand can result in an over-supply situation if parent roll producers do not adjust capacity, which could negatively affect the market price for parent rolls. A significant reduction in parent roll selling prices could reduce revenues and decrease profits and could cause a shut down of some of Orchids' excess paper making capacity.

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 2011. 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 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.

Operating at maximum capacity

We believe that Orchids is operating near maximum capacity in regard to parent roll production. As such, we believe that any improvement to the bottom line will have to come from improvement in margins and efficiencies. One way the Company can improve its margins is to sell a greater percentage of converted products. If the Company is unsuccessful at increasing its percentage of converted product sales and/or reducing manufacturing costs, margins could suffer resulting in no improvement to the bottom line.

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 4.9 million shares in the float with an average daily volume of approximately 20,000 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.

Conclusion and Valuation

We are reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS). The Company continues to post impressive results despite the struggling economy.

At the Taglich Brothers 6th Annual Small Cap Equity Conference in May 2009, Management said it believed it could increase converting efficiency by at least 8% in 2009 but that converted product pricing had reached a plateau in the second quarter. We had previously modeled for a 10% increase in converting efficiency.

Because of Management’s comments, we reduced our net sales estimates, however; we increased our gross margins which resulted in an increase to the bottom line. The recent improvement in margins exceeded our expectations and during the first quarter conference call, Management said it believes the current level of gross margins is sustainable.

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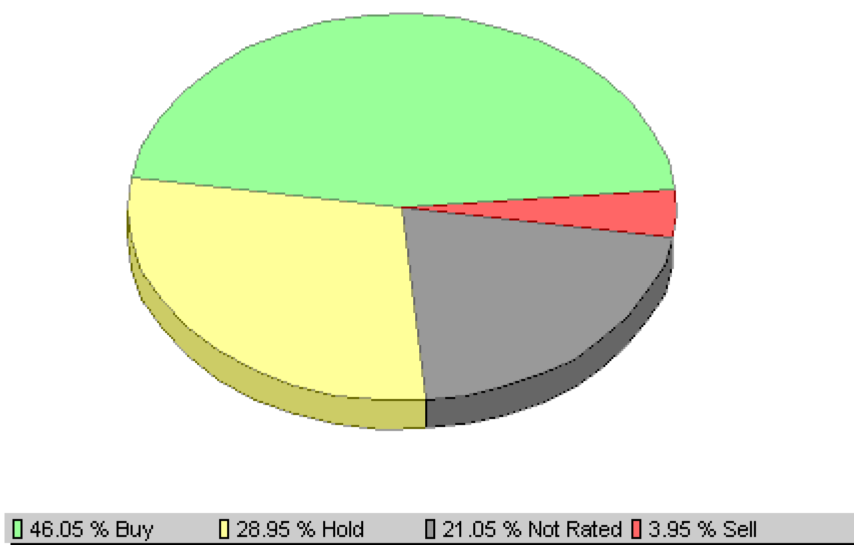
In order to get an appropriate multiple to apply to Orchids’ earnings, we looked at the Company’s historic earnings multiple (17X), its current multiple (16X), and the discount store industry multiple (15X). With these inputs and in an effort to be conservative, we believe that a multiple of 15X earnings is reasonable to apply to Orchids’ earnings. Applying a multiple of 15X to our fiscal 2010 earnings estimate of $2.11 per diluted share, we arrive at a twenty-one-month price target of approximately $32.00 per share. Discounting this value using the Capital Asset Pricing Model (risk free rate of 3.5% and beta of 0.71) gives us a twelve-month value of approximately $30.00 per share. Due to current market conditions, we are applying an additional 10% discount to our valuation which suggests a **price target of $27.00 per share.**

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7.69%
Hold	0	0.00%
Sell	0	0.00%
Not Rated	0	0.00%

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.

Public companies mentioned in this report:

Family Dollar (NYSE: FDO)
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 468,966 shares of TIS common stock and 52,575 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 439,067 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 15,000 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 116,323 shares of TIS common stock, 45,000 warrants, and 7,500 options. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 18,607 shares of TIS common stock and 51,237 warrants. 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, 2007	December 31, 2008	March 31, 2009
Assets			
Current assets:			
Cash	$ 3	$ 11	$ 1,552
Accounts receivable	5,527	6,514	6,967
Inventories	4,874	6,253	6,141
Income taxes receivable	24	-	-
Prepaid expenses	381	399	336
Deferred income taxes	516	557	557
Total current assets	11,325	13,734	15,553
Property, plant and equipment	56,856	60,659	61,144
Deferred debt issuance costs	122	89	81
Total Assets	**$ 68,303**	**$ 74,482**	**$ 76,778**
Liabilities & stockholders' equity			
Current liabilities:			
Accounts payable	$ 4,760	$ 4,699	$ 4,282
Accrued liabilities	2,460	2,584	3,416
Current portion of long-term debt	2,391	2,998	3,138
Total current liabilities	9,611	10,281	10,836
Long-term debt	23,264	21,067	18,751
Deferred income taxes	7,386	9,572	10,465
Total liabilities	**40,261**	**40,920**	**40,052**
Total stockholders' equity	**28,042**	**33,562**	**36,726**
Total liabilities & stockholders' equity	**$ 68,303**	**$ 74,482**	**$ 76,778**

Orchids Paper Products Company

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

	FY(12/06)A	FY(12/07)A	FY(12/08)A	FY(12/09)E	FY(12/10)E
Net sales	**$ 60,190**	**$ 74,648**	**$ 90,202**	**$ 102,040**	**$ 108,000**
Cost of sales	53,988	63,717	75,196	73,393	76,680
Gross profit	6,202	10,931	15,006	28,647	31,320
Selling, general and administrative expenses	4,153	5,234	6,259	7,865	8,300
Operating income (loss)	2,049	5,697	8,747	20,782	23,020
Interest expense	1,980	2,828	1,361	609	600
Other (income) expense	(99)	(36)	(10)	(3)	-
Income (loss) before taxes	168	2,905	7,396	20,176	22,420
Income tax expense (benefit)	(564)	307	2,205	7,469	8,295
Net income (loss)	**$ 732**	**$ 2,598**	**$ 5,191**	**$ 12,707**	**$ 14,125**
Basic EPS	**$ 0.12**	**$ 0.42**	**$ 0.82**	**$ 1.97**	**$ 2.19**
Diluted EPS	**$ 0.11**	**$ 0.40**	**$ 0.79**	**$ 1.90**	**$ 2.11**
Basic Shares Outstanding	6,234	6,256	6,329	6,444	6,456
Diluted Shares Outstanding	6,558	6,465	6,542	6,684	6,684
Margin Analysis					
Gross margin	10.30%	14.64%	16.64%	28.07%	29.00%
Selling, general and administrative	6.90%	7.01%	6.94%	7.71%	7.69%
Operating margin	3.40%	7.63%	9.70%	20.37%	21.31%
Net margin	1.22%	3.48%	5.75%	12.45%	13.08%
Year / Year Growth					
Total Revenues	4.32%	24.02%	20.84%	13.12%	5.84%
Net Income	-47.41%	254.92%	99.81%	144.79%	11.16%
EPS	-63.16%	260.02%	97.46%	139.59%	11.16%

Orchids Paper Products Company

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

	Q1(3/08)A	Q2(6/08)A	Q3(9/08)A	Q4(12/08)A	FY(12/08)A
Net sales	**$ 20,275**	**$ 22,315**	**$ 23,312**	**$ 24,300**	**$ 90,202**
Cost of sales	17,586	19,193	19,518	18,899	75,196
Gross profit	2,689	3,122	3,794	5,401	15,006
Selling, general and administrative expenses	1,385	1,491	1,551	1,833	6,259
Operating income (loss)	1,304	1,631	2,243	3,568	8,747
Interest expense	411	320	310	321	1,361
Other (income) expense	(1)	(5)	(3)	(1)	(10)
Income (loss) before taxes	894	1,316	1,936	3,248	7,396
Income tax expense (benefit)	283	429	513	978	2,205
Net income (loss)	**$ 611**	**$ 887**	**$ 1,423**	**$ 2,270**	**$ 5,191**
Basic EPS	**$ 0.10**	**$ 0.14**	**$ 0.22**	**$ 0.36**	**$ 0.82**
Diluted EPS	**$ 0.09**	**$ 0.14**	**$ 0.22**	**$ 0.35**	**$ 0.79**
Basic Shares Outstanding	6,327	6,329	6,329	6,329	6,329
Diluted Shares Outstanding	6,554	6,527	6,500	6,500	6,542
Margin Analysis					
Gross margin	13.26%	13.99%	16.27%	22.23%	16.64%
Selling, general and administrative	6.83%	6.68%	6.65%	7.54%	6.94%
Operating margin	6.43%	7.31%	9.62%	14.68%	9.70%
Net margin	3.01%	3.97%	6.10%	9.34%	5.75%
Year / Year Growth					
Total Revenues	21.87%	20.52%	21.30%	19.83%	20.84%
Net Income	566.41%	19.38%	25.26%	167.06%	99.81%
EPS	543.64%	16.03%	23.74%	169.61%	97.46%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ending December 31, 2009
(in thousands $)

	Q1(3/09)A	Q2(6/09)E	Q3(9/09)E	Q4(12/09)E	FY(12/09)E
Net sales	**$ 23,640**	**$ 25,300**	**$ 26,300**	**$ 26,800**	**$ 102,040**
Cost of sales	17,208	18,220	18,830	19,135	73,393
Gross profit	6,432	7,080	7,470	7,665	28,647
Selling, general and administrative expenses	1,830	1,950	2,025	2,060	7,865
Operating income (loss)	4,602	5,130	5,445	5,605	20,782
Interest expense	159	150	150	150	609
Other (income) expense	(3)	-	-	-	(3)
Income (loss) before taxes	4,446	4,980	5,295	5,455	20,176
Income tax expense (benefit)	1,649	1,843	1,959	2,018	7,469
Net income (loss)	**$ 2,797**	**$ 3,137**	**$ 3,336**	**$ 3,437**	**$ 12,707**
Basic EPS	**$ 0.44**	**$ 0.49**	**$ 0.52**	**$ 0.53**	**$ 1.97**
Diluted EPS	**$ 0.42**	**$ 0.47**	**$ 0.50**	**$ 0.51**	**$ 1.90**
Basic Shares Outstanding	6,409	6,456	6,456	6,456	6,444
Diluted Shares Outstanding	6,684	6,684	6,684	6,684	6,684
Margin Analysis					
Gross margin	27.21%	27.98%	28.40%	28.60%	28.07%
Selling, general and administrative	7.74%	7.71%	7.70%	7.69%	7.71%
Operating margin	19.47%	20.28%	20.70%	20.91%	20.37%
Net margin	11.83%	12.40%	12.68%	12.82%	12.45%
Year / Year Growth					
Total Revenues	16.60%	13.38%	12.82%	10.29%	13.12%
Net Income	357.77%	253.66%	134.43%	51.41%	144.79%
EPS	351.92%	245.36%	127.98%	49.51%	139.59%

Orchids Paper Products Company

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

	FY2007	FY2008	3mos2009
Cash Flows from Operating Activities			
Net income(loss)	$ 2,598	$ 5,191	$ 2,797
Depreciation and amortization	3,222	3,156	813
Provision for doubful accounts	-	87	16
Deferred income taxes	307	2,145	893
Stock based compensation	402	313	81
Changes in assets and liabilities			
Accounts receivable	(438)	(1,074)	(469)
Inventories	(495)	(1,379)	112
Prepaid expenses	(75)	(18)	63
Income taxes receivable	1,218	24	-
Accounts payable	988	(61)	(417)
Acrrued liabilities	655	124	832
Net Cash Provided by (Used in) Operations	**8,382**	**8,508**	**4,721**
Cash Flows from Investing Activities			
Proceeds from the sale of securities and restricted CD	1,500	-	-
Purchase of property and equipment	(1,818)	(6,926)	(1,290)
Net Cash Provided by (Used in) Investing	**(318)**	**(6,926)**	**(1,290)**
Cash Flows from Financing Activities			
Borrowings on long-term debt	26,500	-	-
Retirement of borrowings on long-term debt	(25,866)	-	-
Principal payments on long-term debt	(2,472)	(2,286)	(689)
Retirment of subordinated debentures	(2,150)	-	-
Net borrowings (repayments) on revolving credit line	(4,270)	696	(1,487)
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	-	16	286
Deferred debt issuance cost	(144)	-	-
Net Cash Provided by (Used in) Financing	**(8,064)**	**(1,574)**	**(1,890)**
Net Change in Cash	**-**	**8**	**1,541**
Cash - Beginning of Period	**3**	**3**	**11**
Cash - End of Period	**$ 3**	**$ 11**	**$ 1,552**