Research Note

Investors should consider this report as only a single factor in making their investment decision.

Orchids Paper Products Company

Rating: Buy

John Nobile
August 3, 2009

TIS $22.85 — (NYSE AMEX)

	FY(2007)A	FY(2008)A	FY(2009)E	FY(2010)E
Revenues (millions)	$74.6	$90.2	$99.0	$106.0
Earnings per share	$0.40	$0.79	$2.07	$2.18

52-Week range	$22.95 – $5.95	Fiscal year ends:	December
Shares outstanding as of 4/30/09	6.5 million	Revenue per share (TTM)	$13.56
Approximate float	4.9 million	Price/Sales (TTM)	1.7X
Market capitalization	$147 million	Price/Sales (FY2010)E	1.5X
Book value/share as of 6/30/09	$6.30 est	Price/Earnings (TTM)	14.8X
Price/tangible book value	3.6X	Price/Earnings (FY2010)E	10.5X

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 reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS) and increasing our twelve-month price target to $32.00 per share (previously $27.00) based on increased earnings estimates. The company has managed to post impressive results despite the struggling economy.

On July 29, 2009, Orchids reported that second quarter net sales increased 8% to $24.1 million from $22.3 million and net income increased to $3.8 million or $0.55 per diluted share versus net income of $0.9 million or $0.14 per diluted share.

During the second quarter conference call, management said it believed it could increase converting efficiency by at least 8% in 2009. Management also said that with no major changes in paper and energy costs, the current level of gross margins would be sustainable.

We are projecting Orchids' revenue in fiscal 2009 to increase to $99.0 million and net income to increase to $14.2 million or $2.07 per diluted share. Our previous projections called for fiscal 2009 revenue of $102.0 million and net income of $12.7 million or $1.90 per diluted share. For fiscal 2010, we are projecting Orchids' revenue to decrease to $106.0 million and net income to increase to $15.0 million or $2.18 per diluted share. Our previous projections called for fiscal 2010 revenue of $108.0 million and net income of $14.1 million or $2.11 per diluted share. The decrease in our revenue estimates 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.

****Please view our disclaimer located on page 10.***

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 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

2nd Quarter Financial Results

For the second quarter ended June 30, 2009 versus the same period in 2008:

- Net sales increased 8% to $24.1 million from $22.3 million.
- Gross margins increased to 32.4% from 14.0%.
- Selling, general and administrative (SG&A) expenses increased to $2.1 million from $1.5 million.
- Interest expense decreased to $0.1 million from $0.3 million.
- Net income was $3.8 million or $0.55 per diluted share versus net income of $0.9 million or $0.14 per diluted share.

In comparison, Taglich Brothers' estimates called for second quarter net sales of $25.3 million and net income of $3.1 million or $0.47 per diluted share.

Converted product sales increased to $22.5 million from $17.4 million while parent roll sales decreased to $1.6 million from $4.9 million. The increase in converted product sales was primarily due to a 19% increase in the net selling price per ton and a 9% increase in converted tons sold. The decrease in parent roll sales was primarily due to a 58% decrease in tonnage shipped and a 22% decrease in the net selling price. Total tons shipped decreased to 12,297 from 14,226, while paper costs decreased to approximately $8.2 million from approximately $11.6 million. The overall net selling price per ton increased to $1,962 from $1,569.

The increase in gross margins was primarily due to lower paper and energy costs, higher converted product selling prices, increased converted product shipments and lower converting direct labor costs.

The increase in SG&A expenses was primarily due to higher costs associated with stock option expense, accruals under the company's incentive bonus program, increased commissions on converted product and costs associated with additions to senior management.

The decrease in interest expense was the result of lower LIBOR interest rates and lower margins over LIBOR.

Balance Sheet

As of June 30, 2009, Orchids had $1.8 million in cash. Orchids had working capital of $8.7 million, long-term debt of $19.3 million, and shareholders' equity of $40.9 million or approximately $6.30 per share. During the first six months of fiscal 2009, the company generated approximately $10.0 million cash from operations, used $7.1 million cash in investing activities, and used $1.1 million cash in financing activities. These items netted the company approximately $1.8 million positive cash flow during the first six months of fiscal 2009.

The terms under Orchids' credit agreement with its existing bank group are as follows (as of the date of this report we do not have June 2009 outstanding balances):

- 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

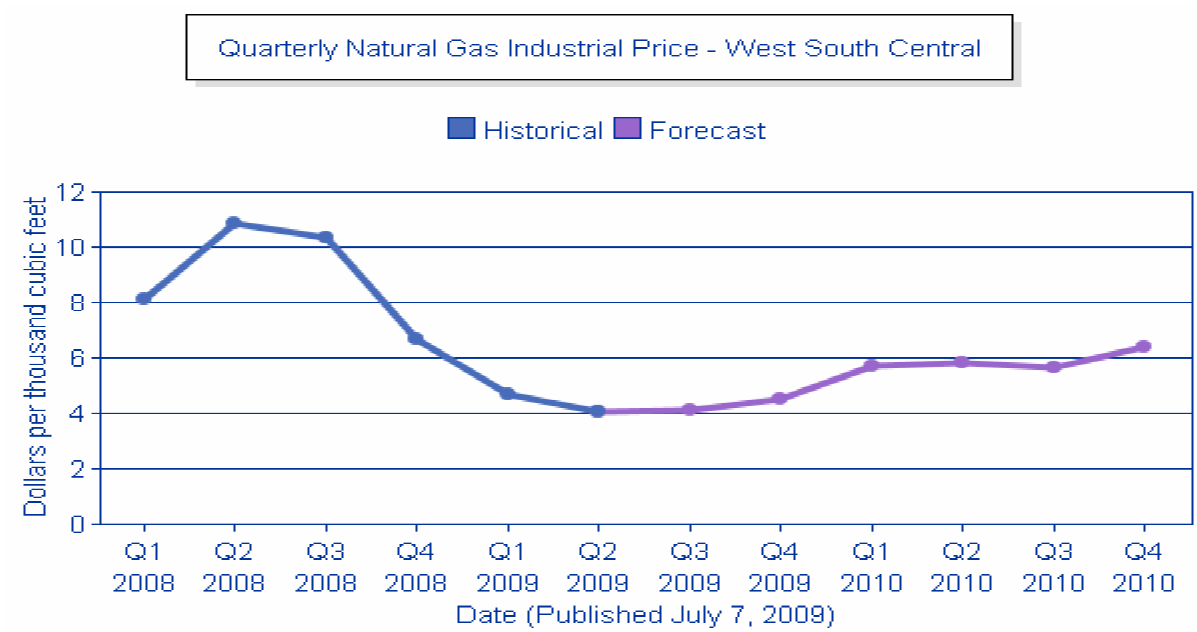
With the company operating at near full capacity in regard to parent rolls, its strategy is to sell all of its parent roll capacity as converted products (which have higher margins than parent rolls) and has focused considerable efforts toward improving its converting efficiencies. The company's efforts 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 constructing a new warehousing complex that will be located adjacent to its converting plant. The cost of expanding its warehouse facility is estimated at $8.4 million with funding for this project coming from cash earnings, a new borrowing agreement, or a combination of both. The company is also evaluating the addition of another 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.

During the second quarter conference call, management said it believed it could increase converting efficiency by at least 8% in 2009. Management also said that with no major changes in paper and energy costs, the current level of gross margins would be sustainable.

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. With the company's natural gas requirements recently approximating only 6% of its total cost of sales, and with the recent hedging in place, we believe that changes in the price of natural gas should not have a pronounced effect on the company's total cost of sales as it has had before the hedge was in place.

In July 2009, the Energy Information Administration (EIA) forecasted West South Central U.S. (includes Oklahoma) natural gas prices to gradually increase over the next two years from current levels. We believe the EIA forecast supports high gross margins going forward when compared to fiscal 2008 but at slightly lower rates than the current level of 32.4%.



Source: Energy Information Administration

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Our fiscal 2009 estimates are made with the following assumptions:

- Orchids operating near 100% manufacturing capacity (for parent rolls).
- 8% growth in converted product sales (recent guidance provided during the second quarter conference call).
- Gross margins of 31% as changes in natural gas prices will not have as much of an impact on cost of sales as they have in the past.
- SG&A expenses increasing due to increased converted product sales.
- A tax rate of 36%. 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.

Our fiscal 2010 estimates are based on the company will maintaining 8% converted product sales growth. We are projecting Orchids' revenue in fiscal 2010 to decrease to $106.0 million and net income to increase to $15.0 million or $2.18 per diluted share. Our previous projections called for fiscal 2010 revenue of $108.0 million and net income of $14.1 million or $2.11 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.

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 fiscal 2008, sales to these significant customers accounted for approximately 64% of the Company's converted product 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 June 30, 2009, Orchids had $22.6 million of indebtedness of which $3.4 million was classified as current and $19.3 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. The company's current levels of business have resulted in the necessity to utilize a third-party warehouse and Orchids is currently building a new warehouse adjacent to its converting facility, which it estimates would cost up to $8.4 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.

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

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 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 parent roll production capacity. We believe that any improvement to the bottom line will require 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

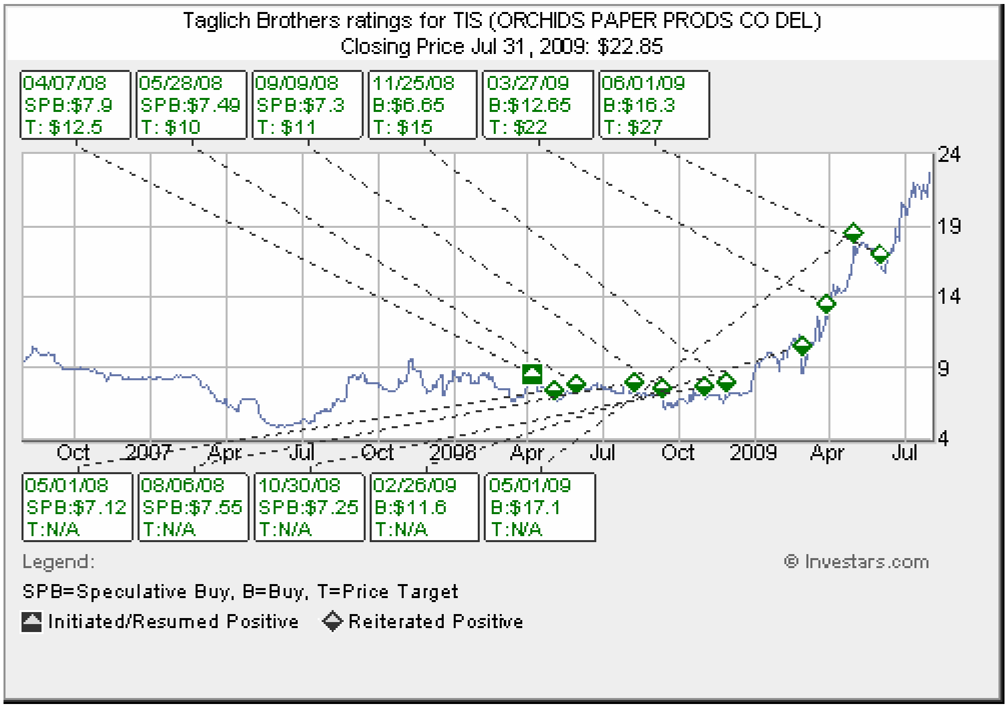
Shares of TIS have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 4.9 million shares in the float with an average daily volume of approximately 50,000 shares.

Miscellaneous Risks

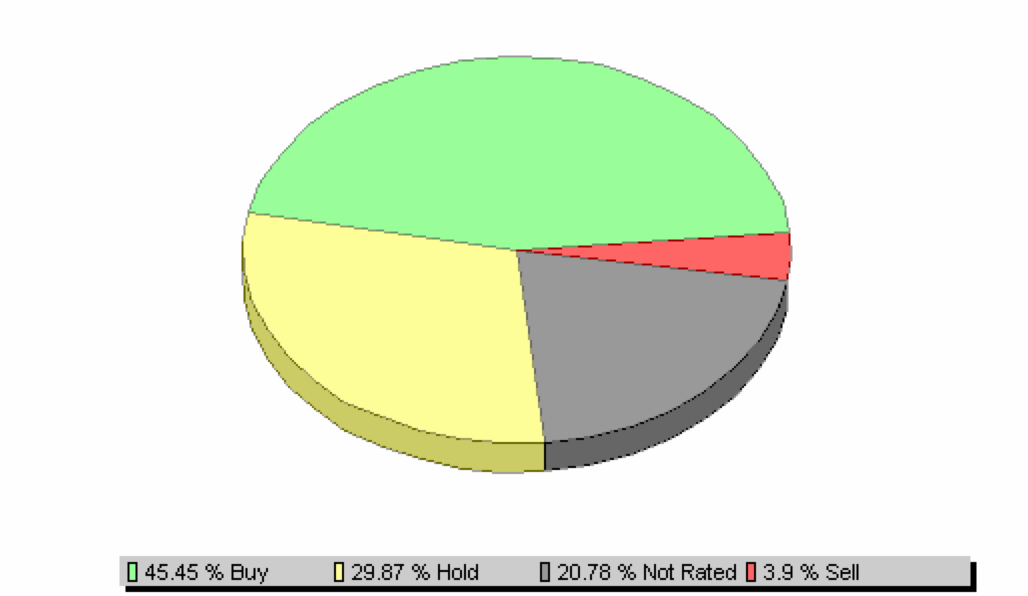
The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Valuation

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 (15X), and the discount store industry multiple (16X). 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 $2.18 per diluted share, we arrive at a twenty-one-month price target of approximately $33.00 per share. Discounting this value using the Capital Asset Pricing Model (risk free rate of 3.5% and beta of 0.67) gives us a **twelve-month price target of approximately $32.00 per share.**



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	3.85%
Hold	1	16.67%
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:

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, 85,214 shares of restricted stock, and 35,050 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 439,067 shares of TIS common stock, 341,244 shares of restricted stock, and 35,050 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 116,323 shares of TIS common stock, 33,477 shares of restricted stock, and 30,000 warrants. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 20,445 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.

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

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

	FY(12/07)A	FY(12/08)A	FY(12/09)E	FY(12/10)E
Net sales	**$ 74,648**	**$ 90,202**	**$ 98,971**	**$ 106,000**
Cost of sales	63,717	75,196	68,277	73,140
Gross profit	10,931	15,006	30,694	32,860
Selling, general and administrative expenses	5,234	6,259	8,017	8,480
Operating income (loss)	5,697	8,747	22,677	24,380
Interest expense	2,828	1,361	564	540
Other (income) expense	(36)	(10)	(4)	-
Income (loss) before taxes	2,905	7,396	22,117	23,840
Income tax expense (benefit)	307	2,205	7,945	8,821
Net income (loss)	**$ 2,598**	**$ 5,191**	**$ 14,172**	**$ 15,019**
Basic EPS	**$ 0.42**	**$ 0.82**	**$ 2.19**	**$ 2.31**
Diluted EPS	**$ 0.40**	**$ 0.79**	**$ 2.07**	**$ 2.18**
Basic Shares Outstanding	6,256	6,329	6,477	6,500
Diluted Shares Outstanding	6,465	6,542	6,846	6,900
Margin Analysis				
Gross margin	14.64%	16.64%	31.01%	31.00%
Selling, general and administrative	7.01%	6.94%	8.10%	8.00%
Operating margin	7.63%	9.70%	22.91%	23.00%
Net margin	3.48%	5.75%	14.32%	14.17%
Year / Year Growth				
Total Revenues	24.02%	20.84%	9.72%	7.10%
Net Income	254.92%	99.81%	173.01%	5.98%
EPS	260.02%	97.46%	160.89%	5.15%

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)A	Q3(9/09)E	Q4(12/09)E	FY(12/09)E
Net sales	**$ 23,640**	**$ 24,131**	**$ 25,000**	**$ 26,200**	**$ 98,971**
Cost of sales	17,208	16,303	16,950	17,816	68,277
Gross profit	6,432	7,828	8,050	8,384	30,694
Selling, general and administrative expenses	1,830	2,087	2,000	2,100	8,017
Operating income (loss)	4,602	5,741	6,050	6,284	22,677
Interest expense	159	135	135	135	564
Other (income) expense	(3)	(1)	-	-	(4)
Income (loss) before taxes	4,446	5,607	5,915	6,149	22,117
Income tax expense (benefit)	1,649	1,832	2,189	2,275	7,945
Net income (loss)	**$ 2,797**	**$ 3,775**	**$ 3,726**	**$ 3,874**	**$ 14,172**
Basic EPS	**$ 0.44**	**$ 0.58**	**$ 0.57**	**$ 0.60**	**$ 2.19**
Diluted EPS	**$ 0.42**	**$ 0.55**	**$ 0.54**	**$ 0.56**	**$ 2.07**
Basic Shares Outstanding	6,409	6,500	6,500	6,500	6,477
Diluted Shares Outstanding	6,684	6,900	6,900	6,900	6,846
Margin Analysis					
Gross margin	27.21%	32.44%	32.20%	32.00%	31.01%
Selling, general and administrative	7.74%	8.65%	8.00%	8.02%	8.10%
Operating margin	19.47%	23.79%	24.20%	23.98%	22.91%
Net margin	11.83%	15.64%	14.90%	14.79%	14.32%
Year / Year Growth					
Total Revenues	16.60%	8.14%	7.24%	7.82%	9.72%
Net Income	357.77%	325.59%	161.84%	70.66%	173.01%
EPS	351.92%	302.59%	146.66%	60.77%	160.89%