



# TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

Member: FINRA, SIPC

## Earnings Note

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

### Orchids Paper Products Company

Rating: Speculative Buy

TIS \$7.55 — (AMEX)

John Nobile  
August 6, 2008

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](http://www.orchidspaper.com))

On July 30, 2008, Orchids Paper Products released results for its fiscal 2008 second quarter. Actual results along with Taglich Brothers' estimates for this period are as follows (in thousands \$):

	<u>Q2(6/08)A</u>	<u>Q2(6/08)E</u>
Net sales	\$ 22,315	\$ 20,900
Cost of sales	<u>19,193</u>	<u>17,514</u>
Gross profit	3,122	3,386
Selling, general and administrative expenses	<u>1,491</u>	<u>1,420</u>
Operating income (loss)	1,631	1,966
Interest expense	320	400
Other (income) expense	<u>(5)</u>	<u>-</u>
Income (loss) before taxes	1,316	1,566
Income tax expense (benefit)	429	410
Net income (loss)	<u>\$ 887</u>	<u>\$ 1,156</u>
Basic EPS	\$ 0.14	\$ 0.18
Diluted EPS	\$ 0.14	\$ 0.18
Basic Shares Outstanding	6,330	6,330
Diluted Shares Outstanding	6,530	6,530
 <u>Margin Analysis</u>		
Gross margin	13.99%	16.20%
Selling, general and administrative	6.68%	6.79%
Operating margin	7.31%	9.41%
Net margin	3.97%	5.53%
 <u>Year / Year Growth</u>		
Total Revenues	20.52%	12.88%
Net Income	19.38%	55.59%
EPS	15.98%	51.15%

*\*Please view our disclaimer located on page 5.*

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Orchids Paper Products Company

**Earnings Comment:** Second quarter 2008 revenues increased 21% over the comparable period in 2007 and exceeded our expectations by approximately \$1.4 million. The increase in revenues was primarily the result of a more than two-fold increase in parent roll shipments, a 14% increase in the selling price per ton of converted products, and an increase in the selling price of parent rolls.

The primary reason for the shortfall in net income was gross margins which were significantly less than we originally anticipated (14% actual versus 16.2% estimated). Slightly higher (\$0.07 million) than originally estimated SG&A expenses also contributed to the earnings shortfall.

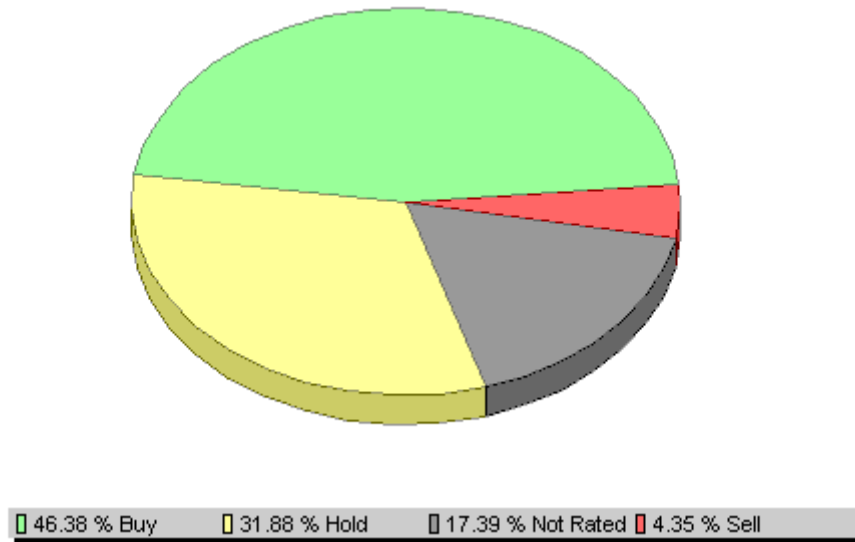
**Rating:** We are currently maintaining our Speculative Buy rating on TIS.

**Risks:** Please review our latest research report (May 28, 2008) for a summary of the principal risks underlying the stock.

## Orchids Paper Products Company



### Taglich Brothers' Current Ratings Distribution



#### Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	0	0.00%
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.**

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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.

\* 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 466,716 shares of TIS common stock and 35,050 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 435,217 shares of TIS common 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 103,518 shares of TIS common stock and 30,000 warrants. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 18997 shares of TIS common stock and 39,900 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. As of 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.**