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
August 19, 2013

TIS $27.93 — (NYSE MKT)

	2011A	2012A	2013E	2014E
Revenues (millions)	$97.8	$100.8	$116.7	$126.9
Earnings per share	$0.80	$1.18	$1.65	$1.87

52-Week range	$28.99 – $16.89	Fiscal year ends:	December
Shares outstanding a/o 7/26/13	7.9 million	Revenue per share (TTM)	$13.79
Approximate float	6.3 million	Price/Sales (TTM)	2.0X
Market capitalization	$221 million	Price/Sales (FY2014)E	1.8X
Tangible book value/share	$10.25	Price/Earnings (TTM)	20.7X
Price/tangible book value	2.7X	Price/Earnings (FY2014)E	14.9X
Annual dividend	$1.40	Dividend Yield	5.0%

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer, or "at home," market. The company has focused its product design and manufacturing on the discount retail market, primarily the dollar store retailers. (www.orchidspaper.com)

Key investment considerations:

Reiterating Speculative Buy rating and increasing 12-month price target to $30.00 (previously $25.50) on increased earnings estimates. Our target implies a total (including dividend) year-ahead return of 12%.

Growth of private label tissue products such as Orchids' has been steady. Euromonitor International says that since 2007, private-label toilet paper sales have increased three times as fast as the overall category to $1.5 billion in 2012. Although Euromonitor did not include paper towels and napkins in their assessment, we believe the attributes that made private-label toilet paper sales increase (improved quality and lower price compared to national brands) also hold for paper towels and napkins. Orchids sells predominantly to the private label market.

In 2013 Orchids should increase converted product tonnage by 21% while decreasing parent roll sales by 55%. We project a further 10% increase in converted product tonnage to be shipped in 2014 and a corresponding 77% decrease in parent roll sales.

For 2013, we project revenue of $116.7 million and EPS of $1.65, up from $113.5 million revenue and EPS of $1.49 to reflect higher converted product tonnage shipments than previously anticipated.

For 2014, we project revenue of $126.9 million and EPS of $1.87, up from $124.3 million revenue and EPS of $1.75. Our projections are based on a further 10% increase in converted product tonnage to be shipped in 2014 and minimal parent roll sales.

On July 24, 2013, Orchids reported 2Q13 revenue of $29.2 million and EPS of $0.39. We projected 2Q13 revenue of $27 million and EPS of $0.34.

Please view our disclosures on pages 13 - 15.

Recommendation and Valuation

Reiterating **Speculative Buy** rating and increasing **12-month price target to $30.00** (previously $25.50) on increased earnings estimates. Our target implies a total (including dividend) year-ahead return of 12%.

Orchids' shares traded at an average multiple of 16X TTM earnings over the past two years (which reflect significant levels of higher tier converted products and expectations of dividends). We believe that during the next twelve months, the market will accord the stock a multiple of 16X as sales and earnings continue to grow. Applying a multiple of 16X to our 2014 EPS estimate of $1.87 discounted to a twelve-month value of $1.82 gives us a price target of approximately $30.00 per share.

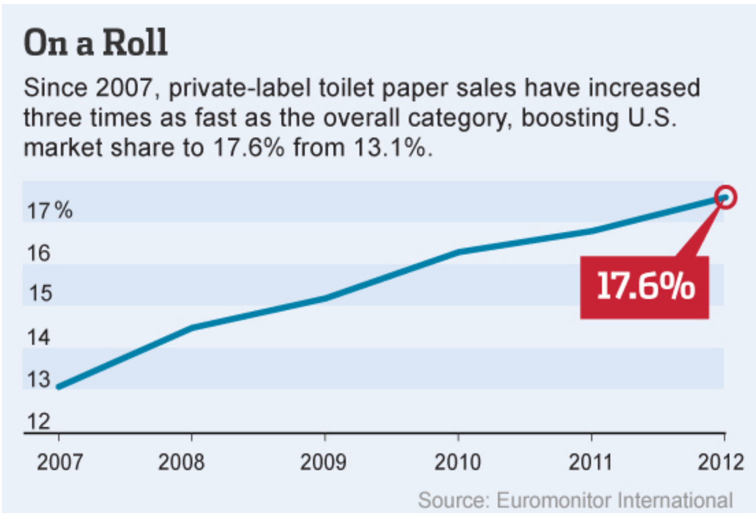
Business

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

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

Private Label Outlook

A June 2013 article in Marketing Daily Magazine (Private Label Brands Go Premium, Gain Prestige; June 18, 2013) reported that private label products have gained significant market share. Private label products continue to increase in popularity due to their improved quality and lower price compared to national brands. Since 2007, private-label toilet paper sales have increased three times as fast as the overall category to $1.5 billion in 2012, according to Euromonitor International, boosting share to 17.6% from 13.1% (chart at right).



In April 2013, IBISWorld said that large discount retailers such as Walmart (accounted for 12% of Orchids' converted product sales in 2012) and Target were increasingly focusing on private-label goods that can provide higher margins. Orchids sells primarily to the private label market. IBISWorld expects this trend to continue over the next five years. However, competition from lower-priced imports is expected to mitigate US growth resulting in the overall industry increasing modestly at an average annualized growth rate of 0.4% from 2013 to 2018.

Economic Outlook

In July 2013, the International Monetary Fund (IMF) reduced its US economic growth forecast to 1.7% in 2013 and 2.7% in 2014, down from an earlier (April 2013) growth forecast of 1.9% for 2013 and 2.9% for 2014. The IMF's projections assumed that the government spending cuts will remain in place until 2014, longer than previously projected. Another round of government spending cuts could be on the horizon. The Senate Appropriations Committee is currently spending $91 billion above and beyond levels agreed to in the Budget Control Act. If the government spends more than the limits set forth in the Budget Control Act, another round of spending cuts could be triggered.

Most economists think the US economy would be growing much more quickly were it not for the efforts to shrink the deficit. In May 2013, the Congressional Budget Office said that the deficit will fall from seven percent of the economy in 2012 or $1.1 trillion, to four percent in 2013 or $0.6 trillion, making this the sharpest contraction in the deficit since 1969.

In June 2013, the Federal Reserve Bank of the Tenth Federal Reserve District, which includes most of the Oklahoma area, released its survey of manufacturing activity. The survey reported that the region's manufacturing activity fell modestly in June 2013 but producers' expectations for future activity continued to increase. Several firms reported that they lost production or had shipments delayed due to regional storms and flooding suggesting that the downturn appeared to be temporary. The region's future manufacturing indexes increased as production, shipments and new orders improved.

As tissue products are considered consumer staples, changes in the economy do not materially affect sales.

Market and Competition

IBISWorld estimates the 2013 US tissue market (paper towels, bathroom tissue, and paper napkins) at $2.5 billion and projects the industry to grow at a compound annual growth rate (CAGR) of 0.4% over the next five years to $2.6 billion.

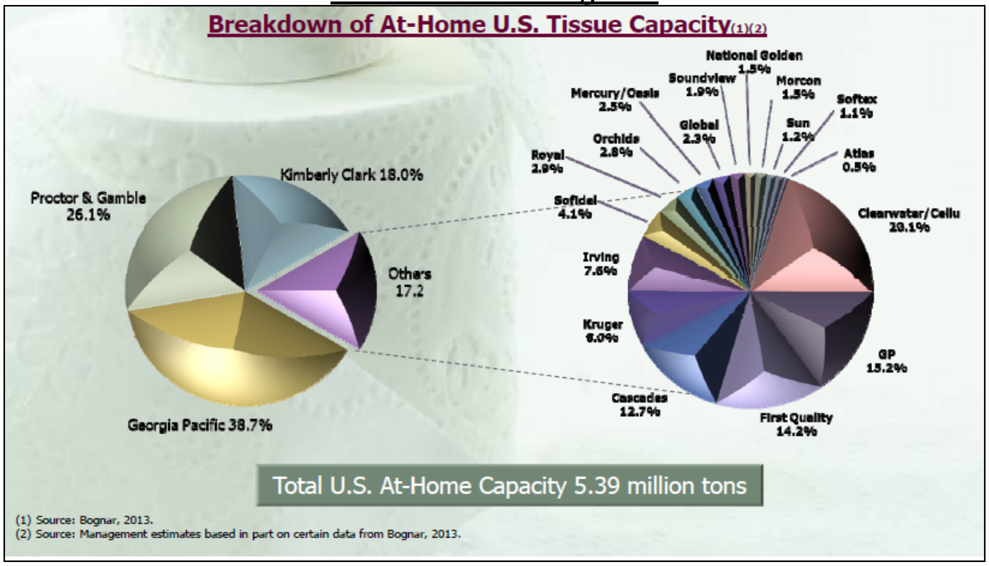
Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $59.8 billion in 2013. IBISWorld projects dollar and variety stores' revenue growth averaging 2.2% annually from 2013 to 2018.

Due to the company's proximity to the dollar and grocery stores in its target market, Orchids' products should save these customers approximately 70% in shipping costs compared with most competitors' products, a significant competitive advantage. However, since 2010, competitors have moved into Orchids' market areas. The increased competition has reduced Orchids' competitive cost advantage and reduced gross margins from 29.2% in 2009 to 17.0% in 2010, and 16.3% in 2011. In 2012 Orchids was able to reverse this downward trend as lower raw material costs and growing sales of higher margin converted products increased Orchids' gross margins to 22.4%.

Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of delivered product costs. In Oklahoma and the immediately surrounding area, Clearwater Paper's Oklahoma City, Oklahoma plant, Georgia-Pacific's Muskogee, Oklahoma plant, Cascades' Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant give these competitors a significant presence.

Clearwater Paper and Cascades are the only publicly held direct competitors. Clearwater Paper's 2011 and 2012 revenue was $1.9 billion for both periods with gross margins of 11.7% and 13.9% respectively, while Cascades 2011 and 2012 revenue was $3.5 billion for both periods with gross margins of 10.4% and 13.4% respectively. These competitors' lower gross margins versus Orchids' 16.3% in 2011 and 22.4% in 2012 could drive them to expand in Orchids' market, increasing pressure on Orchids' prices and margins.

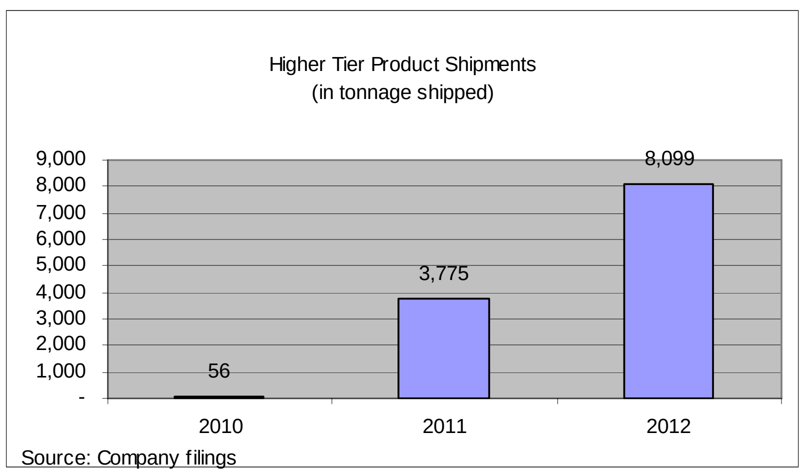
Orchids' Market Segment



Source: Orchids Paper Products

Strategy

Orchids aims to sell all of its manufactured paper goods as converted products, which yield higher margins. In 2010, Orchids' increased its annual converting capacity by approximately 4 million cases with the installation of a new converting line, bringing its annual converting capacity to 12.5 million cases per year. In 2011, Orchids made changes to its operating procedures and invested in equipment in order to develop higher quality products for the mid-tier market.



Orchids plans to expand into other retail channels such as grocery stores, mass merchandise and other discount retail sectors. Initial efforts to expand into these other channels previously had limited success due to capacity constraints and the inability to produce higher grade products. However, these shortcomings have been partly overcome by the additional converting line and new product initiatives (higher grade products). The graph at right shows how shipments of Orchids' higher grade converted products have grown over the past three years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing).

2Q & 1H13 Financial Results

2Q13 - Sales of $29.2 million were up 16% from $25.3 million in 2Q12. Net income was $3.1 million or $0.39 per share versus net income of $2.2 million or $0.29 per share. We projected 2Q13 sales of $27 million and net income of $2.7 million or $0.34 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in 2Q13 increased 25% to $27.8 million while parent roll (bulk tissue paper) sales decreased 52% to $1.4 million.

The increase in converted product sales was due to a 23% increase in tonnage shipped and a 2% increase in net selling price per ton. The increased sales of higher-priced converted products resulted in a 9% increase in the overall selling price per ton to $1,986 from $1,817. The increase in converted product shipments was primarily due to new product (paper towels) sales in the mid and premium tier markets. Net sales of bulk tissue paper decreased due to the increased requirements of the converting operations.

Gross margins increased to 23.9% from 22.2% primarily due to lower paper production costs (raw materials and overhead) and a favorable product mix. Selling, general and administrative (SG&A) expenses increased to $2.5 million from $2.1 million due to increased commissions, packaging costs and stock option expense. Operating income increased to $4.5 million or 15.3% of sales from $3.5 million or 13.8% of sales. Interest expense decreased slightly to $95,000 from $102,000 due to lower debt levels.

1H13 - Sales of $55.8 million were up 9% from $51 million in 1H12. Net income was $6.2 million or $0.78 per share versus net income of $4.8 million or $0.61 per share.

	6mos13	6mos12	% change
	(in thousands $)		
Net sales	55,841	51,006	9.5%
Cost of sales	42,318	39,269	7.8%
Gross profit	13,523	11,737	15.2%
SG&A expenses	4,790	4,399	8.9%
Operating income (loss)	8,733	7,338	19.0%
Interest expense	188	209	-10.0%
Other (income) expense	(12)	316	-103.8%
Income (loss) before taxes	8,557	6,813	25.6%
Income tax expense (benefit)	2,321	2,054	13.0%
Net income (loss)	6,236	4,759	31.0%
Diluted EPS	0.78	0.61	28.5%
Diluted Shares Outstanding	7,914	7,843	
Margin Analysis			
Gross margin	24.2%	23.0%	
SG&A expenses	8.6%	8.6%	
Operating margin	15.6%	14.4%	
Net margin	11.2%	9.3%	

Source: Company filings

Converted product (paper towels, bathroom tissue, and paper napkins) sales in 1H13 increased 14% to $52.4 million while parent roll (bulk tissue paper) sales decreased 32% to $3.4 million.

The increase in converted product sales was due to a 14% increase in tonnage. Net selling price per ton was flat. The increased sales of higher-priced converted products resulted in a 5% increase in overall selling price per ton to $1,954 from $1,863. The increase in converted product shipments was primarily due to new product (paper towels) sales in the mid and premium tier markets. Net sales of bulk tissue paper decreased due to the increased requirements of the converting operations.

Gross margins increased to 24.2% from 23% primarily due to lower paper production costs (raw materials and overhead) and a favorable product mix. Selling, general and administrative (SG&A) expenses increased to $4.8 million from $4.4 million due to increased commissions, packaging costs and stock option expense. Operating income increased to $8.7 million or 15.6% of sales from $7.3 million or 14.4% of sales. Interest expense decreased slightly to $188,000 from $209,000 due to lower debt levels.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2014. As of June 31, 2013, Orchids' had a strong balance sheet with cash of $2.6 million and a debt/equity ratio of 0.2 versus 0.6 for the paper products industry.

Cash earnings of $10.5 million and a $4.6 million increase in working capital resulted in $5.9 million cash from operations in the six month period ended June 30, 2013. Working capital increased due mainly to increases in accounts receivable and inventories, offset in part by an increase in accrued liabilities. Capital expenditures of $5.6 million and $5.1 million in dividend payments reduced cash by $3.1 million to $2.6 million as of June 30, 2013.

A $36 million credit agreement with JP Morgan Chase provides for an $18 million revolving credit line (due April 2014), a $10.8 million real estate term loan with a ten-year term (due April 2021) but amortized as if it had a 25-year life, and a $7.2 million machinery and equipment term loan with a seven-year term (due April 2018). The amount outstanding under this credit facility was $15.7 million as of June 30, 2013.

All loans have a floating interest rate of either the prime rate plus 25 to minus 50 basis points, or LIBOR plus 175 to 265 basis points (based on the ratio of funded debt to EBITDA), at the company's discretion. The credit agreement contains covenants that require Orchids to maintain a specific funded debt-to-EBITDA ratio, fixed charge coverage ratio, and a tangible net worth. As of June 30, 2013, the company was in compliance with these covenants.

Projections

If new orders fully materialize, it could increase converted tonnage shipped by 23% or 10,276 tons in 2013. However, we project approximately 9,500 additional tons being shipped to adjust for shortfalls in orders. There are no sales contracts guaranteeing these orders. However, customer order streams are fairly consistent and typically last several years. We project selling prices (converted and parent roll) to increase 2% annually through our forecast horizon as a growing economy drives increased demand.

Revenue Model

2012	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	44,167	$ 2,049	$ 90,498
Parent Roll	9,828	$ 1,049	$ 10,310
Total	53,995	$ 1,867	$ 100,808
2013	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	53,600	$ 2,090	$ 112,024
Parent Roll	4,400	$ 1,070	$ 4,708
Total	58,000	$ 2,013	$ 116,732
2014	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	59,000	$ 2,132	$ 125,788
Parent Roll	1,000	$ 1,091	$ 1,091
Total	60,000	$ 2,115	$ 126,879

Source: Taglich Brothers estimates

Gross margins should improve to 24.4% in 2013 as increases in higher margin converted product sales (see chart at right) more than offset increasing paper costs. According to IBISWorld, the large increase in paper costs will be driven by an increase in demand for paper as businesses recover. We project other variable costs in 2013 to increase in line with the historic rate of inflation. Fixed costs are projected to remain near current aggregate levels on a per ton basis.

We project gross margins of 25% in 2014 as converted product sales continue to outpace rising paper costs. Other variable costs in 2014 should increase in line with the historic rate of inflation. Fixed costs are projected to remain near current aggregate levels on a per ton basis.

The table at right shows our estimated costs per ton (variable and fixed) over the past four years and our estimates for 2013 and 2014.

COGS (in thousands $) Model

	2009A	2010A	2011A	2012A	2013E	2014E
Variable cost (paper)	$ 36,497	$ 43,947	$ 46,337	$ 42,566	$ 49,822	$ 54,420
Est. variable cost (other)	$ 20,817	$ 20,334	$ 21,373	$ 21,110	$ 23,374	$ 24,900
Total est. variable costs	$ 57,314	$ 64,281	$ 67,710	$ 63,676	$ 73,196	$ 79,320
Est. fixed cost (overhead)	$ 6,939	$ 6,778	$ 7,124	$ 7,036	$ 7,550	$ 8,150
Fixed cost (depreciation)	$ 3,683	$ 5,693	$ 7,052	$ 7,541	$ 7,556	$ 7,708
Total est. fixed costs	$ 10,622	$ 12,471	$ 14,176	$ 14,577	$ 15,106	$ 15,858
COGS	$ 67,936	$ 76,752	$ 81,886	$ 78,253	$ 88,302	$ 95,178
Tons shipped	52,355	56,663	55,514	53,995	58,000	60,000
Variable (paper) costs/ton	$ 697	$ 776	$ 835	$ 788	$ 859	$ 907
Est. variable (other) cost/ton	$ 398	$ 359	$ 385	$ 391	$ 403	$ 415
Total variable costs/ton	$ 1,095	$ 1,134	$ 1,220	$ 1,179	$ 1,262	$ 1,322
Fixed costs/ton	$ 203	$ 220	$ 255	$ 270	$ 260	$ 264
Total COGS/ton	$ 1,298	$ 1,355	$ 1,475	$ 1,449	$ 1,522	$ 1,586
Gross profit	$ 28,027	$ 15,752	$ 15,957	$ 22,566	$ 28,429	$ 31,722
Gross margin	29.2%	17.0%	16.3%	22.4%	24.4%	25.0%

Source: Company filings and Taglich Brothers estimates

We project 2013 revenue of $116.7 million and net income of $13.1 million or $1.65 per share. Our projections have increased from $113.5 million revenue and $11.9 million or $1.49 per share net income previously to reflect higher converted product tonnage shipments than previously anticipated.

The effective tax rate has been lowered to 28.4% from 30% to reflect tax credits. The effective tax rate for 2013 is lower than the statutory rate because of manufacturing tax credits, an Indian lands tax credit that went into effect in 1Q13, and Oklahoma investment tax credits. Oklahoma has the largest percentage of American Indian population in the country. The federal employment tax credit is applicable to businesses located in qualifying areas that employ enrolled American Indians.

We project SG&A expenses of $9.8 million in 2013 (of which approximately 17% or $1.7 million of SG&A expenses are commission-related). Operating margins should increase to 16% in 2013 from 14% in 2012 due to gross profit gains stemming from increased tonnage of higher margin converted products. The tax rate is estimated at 28.4%. Days sales outstanding and inventory turnover are projected to remain at 20 and 8 respectively.

For 2013 we project cash earnings of $21.2 million and a $1.6 million decrease in working capital will result in cash from operations of $22.8 million. The decrease in working capital is primarily due to increases in accounts payable, accrued liabilities and decreased taxes receivable, offset in part by increases in accounts payable and inventories. Cash from operations will more than cover $10 million of capital expenditures, a $3 million pay down of debt, and $10.6 million in dividends, increasing cash by $1.3 million to $5.6 million at December 31, 2013.

We project 2014 revenue of $126.9 million and net income of $15 million or $1.87 per share. Our projections are increased from $124.3 million revenue and $14 million or $1.75 per share net income to reflect higher converted product tonnage shipments. The effective tax rate has been lowered to 28.4% from 30% to reflect tax credits. Our projections are based on a further 10% increase in converted product tonnage to be shipped in 2014 (as we do not believe the 21% rate in 2013 sustainable) and minimal parent roll sales.

We project SG&A expenses of $10.7 million in 2014 (of which approximately 17% or $1.8 million of SG&A expenses are commission-related). Operating margins are projected to increase to 16.6% due to gross profit gains stemming from increased tonnage of higher margin converted products. The tax rate is estimated at 28.4%. Days sales outstanding and inventory turnover are projected to remain at 20 and 8 respectively.

For 2014 we project cash earnings of $23.1 million and a $1.2 million increase in working capital will result in cash from operations of $21.9 million. The increase in working capital is primarily due to increases in accounts receivables and inventories, offset in part by increases in accounts payable and accrued liabilities. Cash from operations will cover $10 million of capital expenditures, a $3 million pay down of debt, and $11 million in dividends, leaving cash virtually unchanged at $5.6 million at December 31, 2014.

Risks

<u>Customer concentration</u>

Three customers (Dollar General, Family Dollar, and Wal-Mart) accounted for approximately 74% of converted product sales in 2012. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

<u>Competition</u>

Competitors have penetrated Orchids' operating region. More intense competition in the company's market has reduced some of its competitive cost advantages and put pressure on selling prices.

<u>Orchids may not be able to sell the capacity from its expanded converting line</u>

Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

No reliance on contracts
Sales contracts are not the norm in the industry. Although orders typically result in multi-year revenue streams, there can be no guarantee as to their length.

Liquidity risk
Microcap stocks typically have small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 6.3 million shares in the float with an average daily volume of approximately 54,000 shares.

Miscellaneous risks
The company's financial results and equity values are subject to other risks, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	2010A	2011A	2012A	6/13A	2013E	2014E
Cash	142	4,297	5,734	2,565	5,598	5,585
Accounts receivable	6,155	6,939	5,406	8,916	6,259	6,804
Inventories	7,595	7,811	10,275	11,291	11,594	12,497
Short term investments	9,518	2,019	5,027	5,031	5,031	5,031
Income taxes receivable	3,952	285	607	805	1,003	1,399
Prepaid expenses	538	530	637	1,030	1,030	1,030
Other	-	338	44	-	-	-
Deferred income taxes	790	410	393	319	319	319
Total current assets	28,690	22,629	28,123	29,957	30,834	32,665
Property, plant and equipment	93,805	92,285	91,188	92,966	91,581	93,873
Deferred debt issuance costs	76	54	47	44	35	25
Total Assets	122,571	114,968	119,358	122,967	122,450	126,563
Accounts payable	5,250	3,520	3,685	3,734	4,158	4,482
Accrued liabilities	2,269	2,615	2,832	3,256	3,279	3,565
Current portion of long-term debt	10,742	1,152	1,152	1,152	1,152	1,152
Total current liabilities	18,261	7,287	7,669	8,142	8,589	9,199
Long-term debt	16,615	16,231	15,079	14,503	12,079	9,079
Deferred income taxes	18,099	18,801	19,432	19,530	19,530	19,530
Total liabilities	52,975	42,319	42,180	42,175	40,198	37,808
Total stockholders' equity	69,596	72,649	77,178	80,792	82,252	88,756
Total liabilities & stockholders' equity	122,571	114,968	119,358	122,967	122,450	126,563

Source: Company filings and Taglich Brothers' estimates

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

	2010A	2011A	2012A	2013E	2014E
Net sales	92,504	97,843	100,819	116,731	126,900
Cost of sales	76,752	81,886	78,253	88,302	95,178
Gross profit	15,752	15,957	22,566	28,429	31,722
SG&A expenses	6,618	6,810	8,456	9,790	10,650
Operating income (loss)	9,134	9,147	14,110	18,639	21,072
Interest expense	934	647	407	338	200
Other (income) expense	(65)	(42)	302	(22)	(20)
Income (loss) before taxes	8,265	8,542	13,401	18,323	20,892
Income tax expense (benefit)	2,351	2,344	4,144	5,202	5,933
Net income (loss)	5,914	6,198	9,257	13,121	14,959
EPS	0.76	0.80	1.18	1.65	1.87
Shares Outstanding	7,755	7,722	7,832	7,970	8,000
Margin Analysis					
Gross margin	17.0%	16.3%	22.4%	24.4%	25.0%
SG&A expenses	7.2%	7.0%	8.4%	8.4%	8.4%
Operating margin	9.9%	9.3%	14.0%	16.0%	16.6%
Net margin	6.4%	6.3%	9.2%	11.2%	11.8%
Tax rate	28.4%	27.4%	30.9%	28.4%	28.4%
Year / Year Growth					
Total Revenues	(3.6%)	5.8%	3.0%	15.8%	8.7%
Net Income	(56.4%)	4.8%	49.4%	41.7%	14.0%
EPS	(59.6%)	5.3%	47.3%	39.3%	13.6%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2012, 2013, and 2014
(in thousands $)

	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13A	9/13E	12/13E	2013E	3/14E	6/14E	9/14E	12/14E	2014E
Net sales	25,727	25,279	25,778	24,035	100,819	26,609	29,232	30,550	30,340	116,731	30,600	31,350	32,650	32,300	126,900
Cost of sales	19,594	19,675	20,388	18,596	78,253	20,082	22,236	23,067	22,917	88,302	23,101	23,563	24,388	24,126	95,178
Gross profit	6,133	5,604	5,390	5,439	22,566	6,527	6,996	7,483	7,423	28,429	7,499	7,787	8,262	8,174	31,722
SG&A expenses	2,287	2,112	2,029	2,028	8,456	2,273	2,517	2,500	2,500	9,790	2,600	2,700	2,675	2,675	10,650
Operating income (loss)	3,846	3,492	3,361	3,411	14,110	4,254	4,479	4,983	4,923	18,639	4,899	5,087	5,587	5,499	21,072
Interest expense	107	102	99	99	407	93	95	80	70	338	50	50	50	50	200
Other (income) expense	(7)	323	(4)	(10)	302	(5)	(7)	(5)	(5)	(22)	(5)	(5)	(5)	(5)	(20)
Income (loss) before taxes	3,746	3,067	3,266	3,322	13,401	4,166	4,391	4,908	4,858	18,323	4,854	5,042	5,542	5,454	20,892
Income tax expense (benefit)	1,224	830	941	1,149	4,144	1,073	1,248	1,448	1,433	5,202	1,379	1,432	1,574	1,549	5,933
Net income (loss)	2,522	2,237	2,325	2,173	9,257	3,093	3,143	3,460	3,425	13,121	3,475	3,610	3,968	3,905	14,959
EPS	0.32	0.29	0.29	0.28	1.18	0.39	0.39	0.43	0.43	1.65	0.43	0.45	0.50	0.49	1.87
Shares Outstanding	7,855	7,844	7,863	7,899	7,832	7,895	7,984	8,000	8,000	7,970	8,000	8,000	8,000	8,000	8,000
Margin Analysis															
Gross margin	23.8%	22.2%	20.9%	22.6%	22.4%	24.5%	23.9%	24.5%	24.5%	24.4%	24.5%	24.8%	25.3%	25.3%	25.0%
SG&A expenses	8.9%	8.4%	7.9%	8.4%	8.4%	8.5%	8.6%	8.2%	8.2%	8.4%	8.5%	8.6%	8.2%	8.3%	8.4%
Operating margin	14.9%	13.8%	13.0%	14.2%	14.0%	16.0%	15.3%	16.3%	16.2%	16.0%	16.0%	16.2%	17.1%	17.0%	16.6%
Net margin	9.8%	8.8%	9.0%	9.0%	9.2%	11.6%	10.8%	11.3%	11.3%	11.2%	11.4%	11.5%	12.2%	12.1%	11.8%
Tax rate	32.7%	27.1%	28.8%	34.6%	30.9%	25.8%	28.4%	29.5%	29.5%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%
Year / Year Growth															
Total Revenues	13.5%	8.1%	(1.3%)	(6.4%)	3.0%	3.4%	15.6%	18.5%	26.2%	15.8%	15.0%	7.2%	6.9%	6.5%	8.7%
Net Income	306.8%	86.9%	41.2%	(20.5%)	49.4%	22.6%	40.5%	48.8%	57.6%	41.7%	12.4%	14.9%	14.7%	14.0%	14.0%
EPS	299.4%	83.6%	36.2%	(21.8%)	47.3%	22.0%	38.0%	49.1%	55.6%	39.3%	10.9%	14.6%	14.7%	14.0%	13.6%

Source: Company filings and Taglich Brothers' estimates

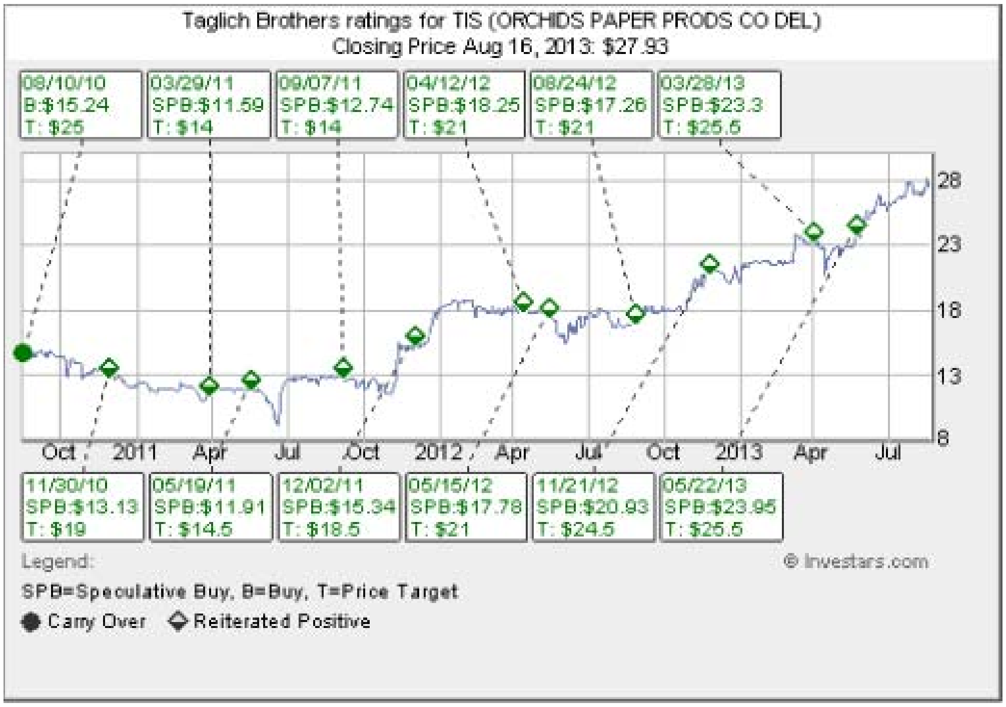
Orchids Paper Products Company

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

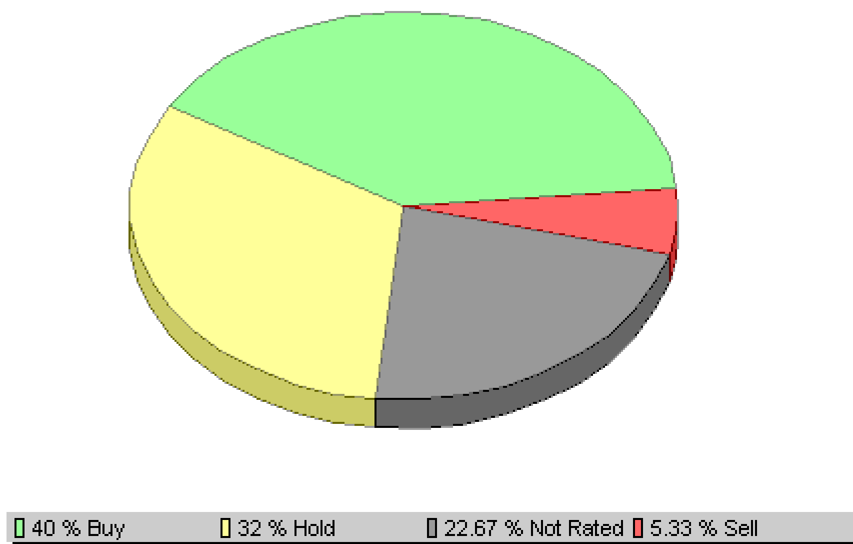
	2010A	2011A	2012A	6mos13A	2013E	2014E
Net income(loss)	5,914	6,198	9,257	6,236	13,121	14,959
Depreciation and amortization	5,725	7,132	7,548	3,778	7,556	7,708
Provision for doubful accounts	(34)	(30)	(20)	(5)	(20)	(20)
Deferred income taxes	3,519	2,359	648	172	98	-
Stock based compensation	562	290	346	333	425	450
Loss on disposal of property, plant and equipment	-	-	336	-	-	-
Changes in assets and liabilities						
Accounts receivable	629	(754)	1,553	(3,505)	(853)	(545)
Inventories	(26)	(216)	(2,464)	(1,016)	(1,319)	(903)
Prepaid expenses	(41)	8	(107)	(393)	(393)	-
Income taxes receivable	(3,952)	2,390	(322)	(198)	3,198	(366)
Other current assets	-	(338)	294	44	44	-
Accounts payable	1,201	(1,730)	165	49	473	324
Acrrued liabilities	(849)	346	217	424	447	286
Net Cash Provided by (Used in) Operations	12,648	15,655	17,451	5,919	22,777	21,892
Proceeds from the sale of investment securities	8,991	7,500	-	-	-	-
Purchase of investment securities	-	-	(3,008)	(4)	(4)	-
Purchase of property and equipment	(26,786)	(5,531)	(6,780)	(5,553)	(10,000)	(10,000)
Net Cash Provided by (Used in) Investing	(17,795)	1,969	(9,788)	(5,557)	(10,004)	(10,000)
Proceeds from issuance of stock	-	-	-	-	-	-
Borrowings under construction loan	5,197	-	-	-	-	-
Repayments on construction loan	-	-	-	-	-	-
Borrowings on long-term debt	-	18,021	-	-	-	-
Principal payments on long-term debt	(3,787)	(2,007)	(1,152)	(576)	(3,000)	(3,000)
Repayment of long-term debt at maturity	-	(5,878)	-	-	-	-
Repayment of long-term debt prior to maturity	-	(17,439)	-	-	-	-
Net borrowings (repayments) on revolving credit line	2,672	(2,672)	-	-	-	-
Proceeds from the exercise of warrants attached to debentures	-	-	-	-	-	-
Proceeds from the exercise of stock options	-	303	974	1,649	1,649	1,649
Excess tax benefit of stock options exercised	-	15	395	479	479	479
Deferred debt issuance cost	(25)	(59)	-	-	-	-
Dividends paid	-	(3,753)	(6,443)	(5,083)	(10,600)	(11,033)
Net Cash Provided by (Used in) Financing	4,057	(13,469)	(6,226)	(3,531)	(11,472)	(11,905)
Net Change in Cash	(1,090)	4,155	1,437	(3,169)	1,301	(13)
Cash - Beginning of Period	1,232	142	4,297	5,734	4,297	5,598
Cash - End of Period	142	4,297	5,734	2,565	5,598	5,585
Cash Flow from Operations	12,648	15,655	17,451	5,919	22,777	21,892
Capital Expenditures	(26,786)	(5,531)	(6,780)	(5,553)	(10,000)	(10,000)
Free Cash Flow	(14,138)	10,124	10,671	366	12,777	11,892

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	4
Hold	1	14
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of TIS common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 407,019 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 391,438 shares of TIS common stock (includes 135,413 shares of restricted stock). Richard Oh, Managing Director of Taglich Brothers, Inc., owns 15,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 69,150 shares of TIS common stock (includes 33,477 shares of restricted stock). Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 5,000 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. From April 2008 to December 2012, the company paid a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

Cascades (OTC PK: CADNF)
Clearwater Paper (NYSE: CLW)
Dollar General (NYSE: DG)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

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.