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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 21, 2014

TIS $26.70 — (NYSE MKT)

	2012A	2013A	2014E	2015E
Revenues (millions)	$100.8	$116.4	$131.6	$153.7
Earnings per share	$1.18	$1.67	$1.30	$2.04

52-Week range	$34.20 – $25.42	Fiscal year ends:	December
Shares outstanding a/o 8/1/14	8.8 million	Revenue per share (TTM)	$14.53
Approximate float	7.5 million	Price/Sales (TTM)	1.8X
Market capitalization	$235 million	Price/Sales (FY2015)E	1.5X
Tangible book value/share	$8.47	Price/Earnings (TTM)	16.7X
Price/tangible book value	3.2X	Price/Earnings (FY2015)E	13.1X
Annual dividend	$1.40	Dividend Yield	5.2%

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 lowering 12-month price target to $33.50 (previously $35.00) due to diminished stock valuation. Our target implies a total (including dividend) year-ahead return of 31%.

In May 2014, IBISWorld said that large discount retailers such as Walmart (accounted for 9% of Orchids' converted product sales in 2013) and Target were increasingly focusing on private-label goods. IBISWorld expects this growth to continue over the next five years.

In June 2014, Orchids closed on a strategic alliance with Fabrica Papel de San Francisco (Fabrica). Fabrica's US sales totaled approximately $25.8 million in 2013 and $8 million in 1Q14. All of Fabrica's US shipments are expected to be fully accretive to Orchids starting in 3Q14.

Orchids generates higher margins from sales of tissue products versus bulk tissue paper. Orchids should increase tissue product tonnage by 15% in 2014 and 17% in 2015.

We project 2014 revenue of $131.6 million and EPS of $1.30, down from earlier projections of $134.5 million revenue and EPS of $1.70, to reflect 2Q14 results. We project 2015 revenue of $153.7 million and EPS of $2.04 per share, down from earlier projections of $159.8 million revenue and EPS of $2.15, due primarily to lower converted product sales.

On August 5, 2014, Orchids reported 2Q14 revenue of $29.2 million and EPS of $0.07. We projected 2Q14 revenue of $29.9 million and EPS of $0.38. 2Q14 results included $1.5 million ($0.18 per share pre-tax) of costs related to the Fabrica transaction.

Please view our disclosures on pages 14 - 16.

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Recommendation and Valuation

Reiterating **Speculative Buy** rating and lowering our **12-month price target to $33.50 (previously $35.00)** due to diminished stock valuation**.** Our target implies a total (including dividend) year-ahead return of 31%.

Orchids' shares traded at its three-year historic average of 20X TTM earnings in 2013 (which reflects significant levels of higher tier converted products and expectations of dividends) and is currently trading at a multiple of 17X TTM earnings. We believe the pull back in the multiple is due to the adverse impact that branded product promotions and inventory reductions by Orchids' customers had on 2Q14 results. However, expectations are for a strong 2H14 as the inventory sell off appears to be over and customers could be returning to private label products in 3Q14. We believe that during the next twelve months, the market will accord the stock a multiple of 17X earnings with the level of sales and earnings we project. Applying a multiple of 17X to our 2015 EPS estimate of $2.04, discounted to a twelve-month value of $1.98, gives us a price target of approximately $33.50 per share.

Alliance with Fabrica Closes

In June 2014, Orchids closed on a strategic alliance with Fabrica Papel de San Francisco (Fabrica). Fabrica, based in Mexicali, Baja California, Mexico, is one of the largest tissue manufacturers in Mexico with 150,000 metric tons of capacity.

Orchids acquired Fabrica's US business, including certain manufacturing assets and access to 18,000 metric tons of capacity each year to support the value, premium and ultra-premium requirements of the US market. Orchids may purchase up to an additional 7,000 metric tons in each of the first two years of this agreement. Products will be produced at Fabrica's facility in Mexicali, Mexico and shipped directly to Orchids' US customers. Operating margins on products produced under this agreement are expected to be consistent with margins earned on products produced in Orchids' facility in Oklahoma. Fabrica's US sales totaled approximately $25.8 million in 2013.

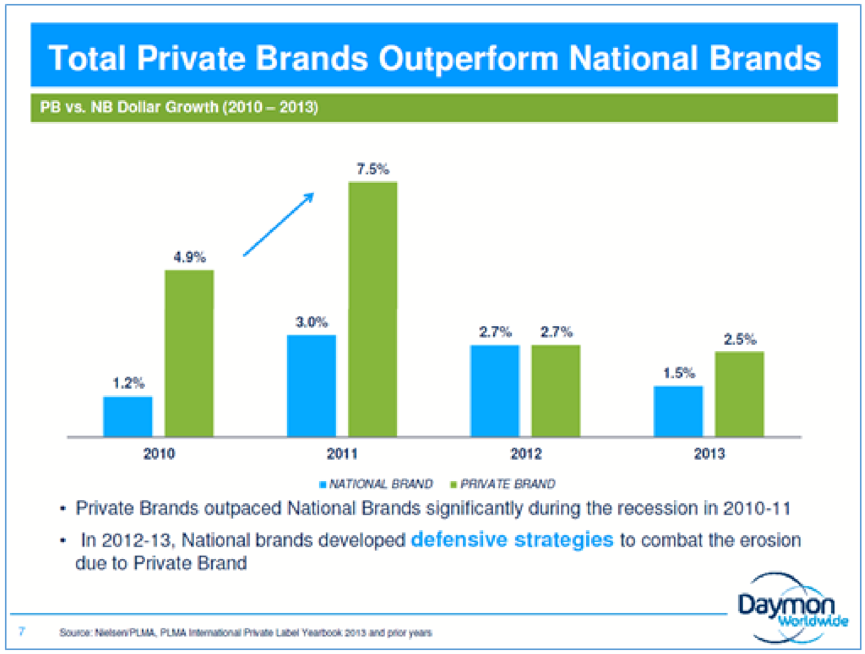
Orchids paid $36.7 million, including shares of Orchids' common stock having a value of $20 million and $16.7 million cash, which Orchids will fund with a new term loan with US Bank National Association.

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 US, but its sales efforts are focused within a 500-mile radius of its northeast Oklahoma facility, 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 constant 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



In July 2014, the Private Label Manufacturers Association (PLMA) reported that shoppers are reaching for private label brands for almost one out of every four products they buy at supermarkets. In 2013, private label brands hit an all-time high of $112 billion in US sales and accounted for a 23.4% market share. According to statistics published by The PLMA and Nielsen, private label sales grew an average of 4.4% annually from 2009 to 2013 vs. average growth of 2.1% for national brands (see chart at right). The growth in private label sales is driven by the rising quality and value of private label products.

In January 2014, Private Label Buyer magazine cited data showing that private label toilet tissue was up more than 10% to almost $1.58 billion in 2013 for a 30% market share. Private label facial tissue was up more than 5% with an almost 30% market share and private label paper towels were up slightly capturing a market share of 44%. Driving the growth in private label paper products was continuous improvement in quality and performance.

In a May 2014 sanitary paper product manufacturing industry report, IBISWorld said that large discount retailers such as Walmart (accounted for 9% of Orchids' converted product sales in 2013) and Target were increasingly focusing on private-label goods that can provide higher margins. 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 moderate industry growth of 2% annually in the six years to 2020.

Economic Outlook

In July 2014, The IMF lowered its 2014 economic growth estimate for the US to 1.7%, down from its April 2014 estimate of 2.8%. The US Bureau of Economic Analysis (BEA) released its GDP estimate showing the US economy expanded 4% in 2Q14. The IMF's projections predate the latest GDP estimate.

The IMF said the US inventory overhang at the end of 2013 turned out to be larger than expected, leading to a stronger correction. Further, a harsh winter dampened demand, exports declined sharply after a strong fourth quarter, and output contracted in 1Q14. The IMF's growth estimate for 2015 remained unchanged at 3.0%.

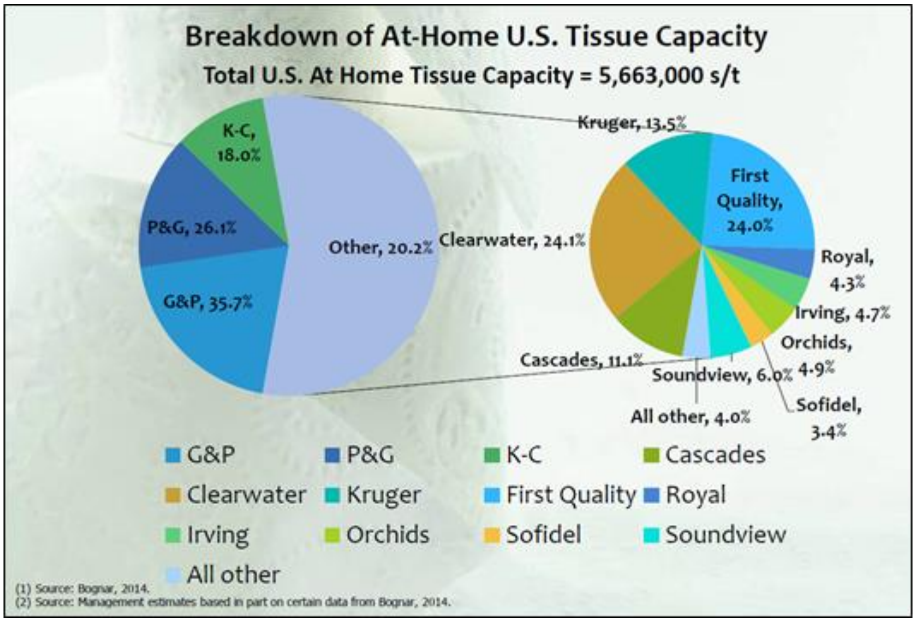
In July 2014, the Federal Reserve Bank of the Tenth Federal Reserve District, which includes the Oklahoma area, released its survey of manufacturing activity. The survey reported that the region's manufacturing activity edged higher in July 2014 and producers' optimism for future activity increased.

Although tissue products are considered consumer staples and changes in the economy do not typically affect sales of overall tissue products, the recession did help in driving consumption to private label products such as Orchids'.

Market and Competition

In May 2014, IBISWorld estimated the 2013 US sanitary paper product market at $11.8 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $2.5 billion. The overall industry is projected to grow at an average annual growth rate of 2% over the next six years to $13.3 billion by 2020.

Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $54.4 billion in 2014. IBISWorld projects dollar and variety stores' average revenue growth to decline 1.2% annually over the next six years to $50.5 billion by 2020 as competition from rivals such as Walmart increases.



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 (according to a food broker source in Texas) compared with most competitors' products, a significant competitive advantage. However, since 2010, competitors have moved into Orchids' market areas, arguably drawn by attractive margins. 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. Orchids was able to reverse this downward trend as growing sales of higher margin converted products increased Orchids' gross margins to 22.4% in 2012 and 24% in 2013.

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. Revenue and gross margins for Orchids and its competitors are shown at right. These competitors' lower gross margins versus Orchids' could drive them to expand in Orchids' market, increasing pressure on Orchids' prices and margins.

	Clearwater Paper	Cascades	Orchids Paper
2013 Revenue	$1.9B	$3.8B	$116.4M
2013 Gross Margin	11.6%	14.9%	24.0%
2012 Revenue	$1.9B	$3.6B	$100.8M
2012 Gross Margin	14.2%	13.4%	22.4%

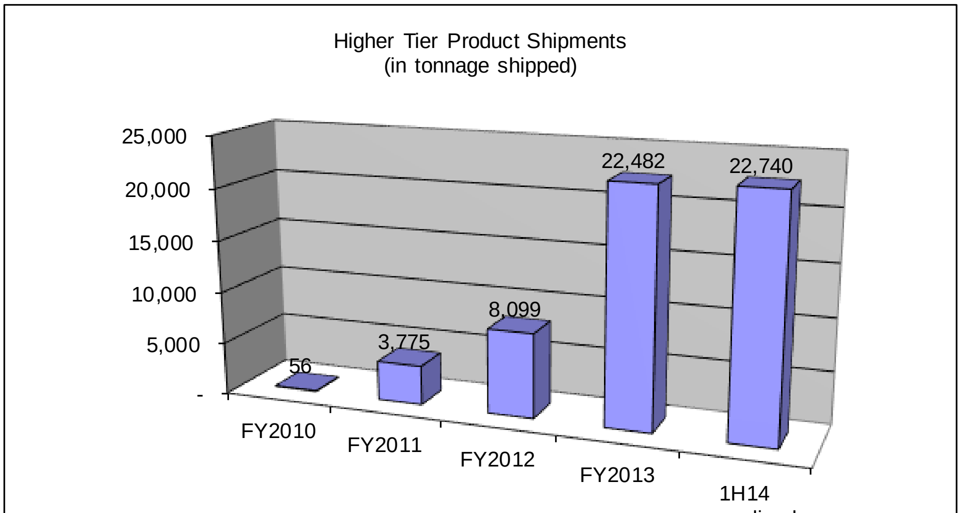
Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In 2010, Orchids' increased its annual converting capacity by approximately four 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. In 2014 Orchids acquired Fabrica's US business, including certain manufacturing assets and access to

18,000 metric tons of capacity each year to support the value, premium and ultra-premium requirements of the US market.

In 2014, the company plans to upgrade one of its converting lines to further improve manufacturing flexibility and capacity. Orchids also plans to replace two existing paper machines with a new machine that is expected to increase its Oklahoma plant's annual capacity from 57,000 tons to over 70,000 tons. The converting line project is expected to be completed by the end of 2014 and the paper machine is expected to begin production in early 2015.

Orchids plans to expand into 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 overcome by the additional converting line and new product initiatives (higher grade products).



Source: Company filings

The graph at right shows how shipments of Orchids' higher grade converted products have grown over the past four and a half years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing).

2Q and 1H14 Financial Results

2Q14 - Sales of $29.2 million were flat. Net income was $0.5 million or $0.07 per share versus net income of $3.1 million or $0.39 per share. We projected 2Q14 sales of $29.9 million and net income of $3.2 million or $0.38 per share. 2Q14 results were adversely affected by competitive pricing on branded products and the inventory sell off of private label products due to excess inventory at Orchids' customers.

Converted product (paper towels, bathroom tissue, and paper napkins) sales and parent roll (bulk tissue paper) sales were flat at $27.7 million and $1.5 million, respectively. Converted product tonnage and net selling prices were essentially flat. A 20% increase in parent roll tonnage shipments to 1,642 was offset by a 15% decrease in selling prices to $892/ton due to a soft market for parent rolls.

Gross margins decreased to 18.8% from 23.9% primarily due to higher overhead costs and depreciation. Selling, general and administrative (SG&A) expenses increased to $4.4 million from $2.5 million primarily due to costs related to the Fabrica transaction. The company recognized $108,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income decreased to $1 million or 3.3% of sales from $4.5 million or 15.3% of sales.

1H14 - Sales increased 2% to $57 million. Net income was $3.2 million or $0.39 per share versus net income of $6.2 million or $0.78 per share.

	6mos14	6mos13	% change
	(in thousands $)		
Net sales	56,955	55,841	2.0%
Cost of sales	45,447	42,318	7.4%
Gross profit	11,508	13,523	-14.9%
Intangibles amortization	108	-	NMF
SG&A expenses	6,586	4,790	37.5%
Operating income (loss)	4,814	8,733	-44.9%
Interest expense	125	188	-33.5%
Other (income) expense	(6)	(12)	-50.0%
Income (loss) before taxes	4,695	8,557	-45.1%
Income tax expense (benefit)	1,506	2,321	-35.1%
Net income (loss)	3,189	6,236	-48.9%
Diluted EPS	0.39	0.78	-50.5%
Diluted Shares Outstanding	8,258	7,914	
Margin Analysis			
Gross margin	20.2%	24.2%	
SG&A expenses	11.6%	8.6%	
Operating margin	8.5%	15.6%	
Net margin	5.6%	11.2%	

Source: Company filings

Converted product sales increased 3% to $53.9 million while parent roll sales decreased 10% to $3.1 million. The increase in converted product sales was due to a 2% increase in net selling prices to $2,115/ton and a 1% increase in tonnage shipped to 25,478. The decrease in parent roll sales was due to a 14% decrease in net selling prices to $896/ton partially offset by 4% increase in parent roll tonnage shipped to 3,428. The decrease in parent roll selling prices was due to reduced demand for parent rolls.

Gross margins decreased to 20.2% from 24.2% primarily due to higher overhead costs and depreciation. Selling, general and administrative (SG&A) expenses increased to $6.6 million from $4.8 million primarily due to costs related to the Fabrica transaction. The company recognized $108,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income decreased to $4.8 million or 8.5% of sales from $8.7 million or 15.6% of sales.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2015. As of June 30, 2014, Orchids had a strong balance sheet with cash of $6.1 million and a debt/equity ratio of 0.3 versus 0.4 for the paper products industry.

1H14 cash from operations of $3.1 million was primarily due to cash earnings of $8.7 million partially offset by a $5.6 million increase in working capital. The increase in working capital was primarily due to increases in inventories, accounts receivable, income taxes receivable and other assets, partially offset by increased accounts payable. Capital expenditures of $5.7 million, $16.7 million for the acquisition of Fabrica, and $5 million proceeds from the sale of investment securities resulted in $17.4 million cash used in investing activities. These items combined with $18.8 million net borrowings and $5.7 million in dividend payments resulted in a $1.1 million decrease in cash to $6.1 million as of June 30, 2014.

In June 2014, Orchids entered into a $75 million credit agreement with U.S. Bank National Association. The agreement includes a $45 million revolving credit line due June 2019 and a $30 million term loan due June 2020. The agreement effectively extends and increases Orchids' revolving working capital line of credit from $15 million to $25 million, increases Orchids' revolving line of credit to include $20 million for the purchase and construction of assets in Oklahoma, and refinances Orchids' $10.8 million real estate loan and $7.2 million machinery and equipment loan into a single $30 million term loan, which also provides funding for the $16.7 million to be paid in accordance with the Fabrica agreement. Borrowings under the agreement will bear interest at variable rates with margins ranging from 1% to 2% above LIBOR.

The credit agreement contains covenants that require Orchids to maintain specific fixed charge coverage and leverage ratios. As of June 30, 2014, the company was in compliance with those covenants.

Projections

With only one month of contribution, Fabrica generated approximately $2.9 million in revenue in 2Q14, or approximately $35 million annualized. This would equate to approximately 20,000 tons annually from Fabrica using Fabrica's average selling price of $1,700/ton in 2013. Fabrica's shipments are expected to be fully accretive to Orchids starting in 3Q14. With the additional shipments from Fabrica and growth expected for Orchids' core business in 2H14 (customers' inventory sell down completed and customers are returning to private label products), we project approximately 60,500 tons of converted products being shipped in 2014, down from our previous projection of 64,000 tons to reflect 2Q14 results. We project a full year's worth of shipments from Fabrica should increase Orchids' converted product shipments to 70,800 tons in 2015. We project 2014 selling prices of $2,115/ton for converted products and $896/ton for parent rolls, consistent with 1H14 levels. For 2015, we project selling prices of $2,157/ton for converted products and $914/ton for parent rolls, consistent with the 2% increase in paper selling prices projected by IBISWorld.

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue ($,000)
2013			
Converted	52,592	$ 2,084	$ 109,611
Parent Roll	6,726	$ 1,006	$ 6,763
Total	59,318	$ 1,962	$ 116,374
2014			
Converted	60,500	$ 2,115	$ 127,958
Parent Roll	4,000	$ 896	$ 3,584
Total	64,500	$ 2,039	$ 131,542
2015			
Converted	70,800	$ 2,157	$ 152,716
Parent Roll	1,000	$ 914	$ 914
Total	71,800	$ 2,140	$ 153,630

Source: Company filings and Taglich Brothers estimates

There are no sales contracts guaranteeing these orders. However, customer order streams are fairly constant and typically last several years.

We project gross margins decreasing to 21.8% in 2014 primarily due to higher raw material costs but increasing to 24.6% in 2015 as increased sales of higher margin converted products more than offset increasing raw material (fiber) costs. Paper costs are projected to increase to $783/ton in 2014 and $803/ton in 2015, in line with IBISWorld's projected percentage increases for wood pulp prices. We project other variable costs in 2014 and 2015 to increase primarily due to inflationary pressures. Fixed costs per ton are projected to increase in 2014 with the Fabrica acquisition but the manufacturing efficiencies associated with increased production should help to reduce fixed costs per ton in 2015. The table above shows our estimated costs per ton (variable and fixed) over the past four years and our estimates for 2014 and 2015.

COGS (in thousands $) Model

	2010A	2011A	2012A	2013A	2014E	2015E
Variable cost (paper)	$ 43,947	$ 46,337	$ 42,566	$ 43,949	$ 50,504	$ 57,655
Est. variable cost (other)	$ 20,334	$ 21,373	$ 21,110	$ 27,699	$ 31,025	$ 35,541
Total est. variable costs	$ 64,281	$ 67,710	$ 63,676	$ 71,648	$ 81,528	$ 93,196
Est. fixed cost (overhead)	$ 6,778	$ 7,124	$ 7,036	$ 9,233	$ 11,080	$ 12,188
Fixed cost (depreciation)	$ 5,693	$ 7,052	$ 7,541	$ 7,613	$ 10,300	$ 10,440
Total est. fixed costs	$ 12,471	$ 14,176	$ 14,577	$ 16,846	$ 21,380	$ 22,628
COGS	$ 76,752	$ 81,886	$ 78,253	$ 88,494	$ 102,908	$ 115,824
Tons shipped	56,663	55,514	53,995	59,318	64,500	71,800
Variable (paper) costs/ton	$ 776	$ 835	$ 788	$ 741	$ 783	$ 803
Est. variable (other) cost/ton	$ 359	$ 385	$ 391	$ 467	$ 481	$ 495
Total variable costs/ton	$ 1,134	$ 1,220	$ 1,179	$ 1,208	$ 1,264	$ 1,298
Fixed costs/ton	$ 220	$ 255	$ 270	$ 284	$ 331	$ 315
Total COGS/ton	$ 1,355	$ 1,475	$ 1,449	$ 1,492	$ 1,595	$ 1,613
Gross profit	$ 15,752	$ 15,957	$ 22,566	$ 27,880	$ 28,647	$ 37,826
Gross margin	17.0%	16.3%	22.4%	24.0%	21.8%	24.6%

Source: Company filings and Taglich Brothers estimates

We project 2014 revenue of $131.6 million and net income of $11.1 million or $1.30 per share, down from previous projections of $134.5 million revenue and $14.6 million or $1.70 per share net income to reflect 2Q14 results.

We project SG&A expenses of $11.2 million in 2014 (of which approximately 1.6% or $2.1 million of sales are commission-related). Our SG&A projection is up over 2013 due primarily to the inclusion of Fabrica resulting in operating margins of 12.7%. The tax rate is estimated at 32%.

For 2014 we project cash earnings of $21.5 million and a $3.7 million increase in working capital will result in cash from operations of $17.8 million. The increase in working capital is primarily due to increases in inventories and other current assets. Cash from operations will be insufficient to cover $34.7 million of capital expenditures (from investments in a new paper machine, a converting line upgrade, and the acquisition of Fabrica's US business) necessitating an $18.8 million net increase in debt. Dividends of $11.3 million and a total of $4.7 million from option exercises and associated tax benefits should decrease cash by $4.7 million to $2.5 million at December 31, 2014.

We project 2015 revenue of $153.7 million and net income of $18 million or $2.04 per share, down from previous projections of $159.8 million revenue and $18.9 million or $2.15 per share net income) due primarily to lower converted product sales.

We project SG&A expenses of $9.6 million in 2015 (of which approximately 1.6% or $2.5 million of sales are commission-related), lower by $1.6 million due primarily to the absence of costs related to the Fabrica transaction. Operating margins are projected to increase to 17.5% from 12.7% due primarily to the gross profit gains discussed earlier. The tax rate is estimated at 32%.

For 2015 we project cash earnings of $28.1 million and a $1 million increase in working capital will result in cash from operations of $27.1 million. The increase in working capital is primarily due to increases in accounts receivables and inventories. Cash from operations will cover $12 million of capital expenditures, a $5 million pay down of debt, and $11.3 million in dividends, increasing cash by $3.5 million to $6 million at December 31, 2015.

Risks

Customer concentration
Four customers (Dollar General, Family Dollar, HEB and Wal-Mart) accounted for approximately 81% of converted product sales in 2013. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition
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.

Orchids may not be able to sell the capacity from its expanded converting line
Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

Fabrica acquisition
In June 2014, Orchids acquired various assets and business operations from Fabrica. There can be no assurance that Orchids will fully realize the anticipated benefits of the transaction. Further, as a result of the Fabrica transaction, Orchids' indebtedness is now greater than it was prior to the acquisition.

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 7.5 million shares in the float with an average daily volume of approximately 49,000 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 $)

	2011A	2012A	2013A	6/14A	2014E	2015E
Cash	4,297	5,734	7,205	6,137	2,480	5,984
Accounts receivable	6,939	5,406	6,585	8,485	7,444	8,694
Inventories	7,811	10,275	10,921	14,055	12,700	14,294
Short term investments	2,019	5,027	5,035	-	-	-
Income taxes receivable	285	607	-	1,214	1,214	1,964
Prepaid expenses	530	637	863	690	751	751
Other	338	44	146	2,118	2,118	2,118
Deferred income taxes	410	393	552	544	544	544
Total current assets	22,629	28,123	31,307	33,243	27,251	34,349
Property, plant and equipment	92,285	91,188	95,745	104,131	116,294	118,595
Intangible assets	-	-	-	17,882	17,234	15,938
Goodwill	-	-	-	7,560	7,560	7,560
Deferred debt issuance costs	54	47	40	76	76	76
Total Assets	114,968	119,358	127,092	162,892	168,415	176,518
Accounts payable	3,520	3,685	3,685	6,768	4,285	4,823
Accrued liabilities	2,615	2,832	4,030	3,438	4,556	5,321
Current portion of long-term debt	1,152	1,152	1,152	2,700	2,700	2,700
Total current liabilities	7,287	7,669	8,867	12,906	11,541	12,844
Long-term debt	16,231	15,079	13,927	31,197	31,197	26,197
Deferred income taxes	18,801	19,432	19,449	19,130	19,130	19,130
Total liabilities	42,319	42,180	42,243	63,233	61,868	58,171
Total stockholders' equity*	72,649	77,178	84,849	99,659	106,547	118,347
Total liabilities & stockholders' equity	114,968	119,358	127,092	162,892	168,415	176,518

* Our FY14 estimate includes the issuance of $16 million in common stock (686,083 shares) for Fabrica.
Source: Company filings and Taglich Brothers' estimates

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

	2011A	2012A	2013A	2014E	2015E
Net sales	97,843	100,819	116,374	131,555	153,650
Cost of sales	81,886	78,253	88,494	102,908	115,824
Gross profit	15,957	22,566	27,880	28,647	37,826
Intangibles amortization				756	1,296
SG&A expenses	6,810	8,456	9,471	11,186	9,600
Operating income (loss)	9,147	14,110	18,409	16,705	26,930
Interest expense	647	407	371	365	480
Other (income) expense	(42)	302	(173)	(6)	-
Income (loss) before taxes	8,542	13,401	18,211	16,346	26,450
Income tax expense (benefit)	2,344	4,144	4,892	5,234	8,464
Net income (loss)	6,198	9,257	13,319	11,112	17,986
EPS	0.80	1.18	1.67	1.30	2.04
Shares Outstanding	7,722	7,832	7,937	8,525	8,800
Margin Analysis					
Gross margin	16.3%	22.4%	24.0%	21.8%	24.6%
SG&A expenses	7.0%	8.4%	8.1%	8.5%	6.2%
Operating margin	9.3%	14.0%	15.8%	12.7%	17.5%
Net margin	6.3%	9.2%	11.4%	8.4%	11.7%
Tax rate	27.4%	30.9%	26.9%	32.0%	32.0%
Year / Year Growth					
Total Revenues	5.8%	3.0%	15.4%	13.0%	16.8%
Net Income	4.8%	49.4%	43.9%	(16.6%)	61.9%
EPS	5.3%	47.3%	41.3%	(21.9%)	56.8%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2013, 2014, and 2015
(in thousands $)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14A	6/14A	9/14E	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	26,609	29,232	29,760	30,773	116,374	27,759	29,196	37,500	37,100	131,555	36,500	37,500	40,050	39,600	153,650
Cost of sales	20,082	22,236	22,620	23,556	88,494	21,741	23,706	28,881	28,580	102,908	27,509	28,260	30,215	29,840	115,824
Gross profit	6,527	6,996	7,140	7,217	27,880	6,018	5,490	8,619	8,520	28,647	8,991	9,240	9,835	9,760	37,826
Intangibles amortization							108	324	324	756	324	324	324	324	1,296
SG&A expenses	2,273	2,517	2,122	2,559	9,471	2,179	4,407	2,300	2,300	11,186	2,400	2,400	2,400	2,400	9,600
Operating income (loss)	4,254	4,479	5,018	4,658	18,409	3,839	975	5,995	5,896	16,705	6,267	6,516	7,111	7,036	26,930
Interest expense	93	95	92	91	371	13	112	120	120	365	120	120	120	120	480
Other (income) expense	(5)	(7)	(9)	(152)	(173)	1	(7)	-	-	(6)	-	-	-	-	-
Income (loss) before taxes	4,166	4,391	4,935	4,719	18,211	3,825	870	5,875	5,776	16,346	6,147	6,396	6,991	6,916	26,450
Income tax expense (benefit)	1,073	1,248	1,212	1,359	4,892	1,182	324	1,880	1,848	5,234	1,967	2,047	2,237	2,213	8,464
Net income (loss)	3,093	3,143	3,723	3,360	13,319	2,643	546	3,995	3,928	11,112	4,180	4,349	4,754	4,703	17,986
EPS	0.39	0.39	0.47	0.42	1.67	0.32	0.07	0.45	0.45	1.30	0.47	0.49	0.54	0.53	2.04
Shares Outstanding	7,895	7,984	8,074	8,121	7,937	8,153	8,346	8,800	8,800	8,525	8,800	8,800	8,800	8,800	8,800
Margin Analysis															
Gross margin	24.5%	23.9%	24.0%	23.5%	24.0%	21.7%	18.8%	23.0%	23.0%	21.8%	24.6%	24.6%	24.6%	24.6%	24.6%
SG&A expenses	8.5%	8.6%	7.1%	8.3%	8.1%	7.8%	15.1%	6.1%	6.2%	8.5%	6.6%	6.4%	6.0%	6.1%	6.2%
Operating margin	16.0%	15.3%	16.9%	15.1%	15.8%	13.8%	3.3%	16.0%	15.9%	12.7%	17.2%	17.4%	17.8%	17.8%	17.5%
Net margin	11.6%	10.8%	12.5%	10.9%	11.4%	9.5%	1.9%	10.7%	10.6%	8.4%	11.5%	11.6%	11.9%	11.9%	11.7%
Tax rate	25.8%	28.4%	24.6%	28.8%	26.9%	30.9%	37.2%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Year / Year Growth															
Total Revenues	3.4%	15.6%	15.4%	28.0%	15.4%	4.3%	(0.1%)	26.0%	20.6%	13.0%	31.5%	28.4%	6.8%	6.7%	16.8%
Net Income	22.6%	40.5%	60.1%	54.6%	43.9%	(14.5%)	(82.6%)	7.3%	16.9%	(16.6%)	58.2%	696.6%	19.0%	19.7%	61.9%
EPS	22.0%	38.0%	62.1%	52.7%	41.3%	(17.3%)	(83.4%)	(3.4%)	6.3%	(21.9%)	46.5%	655.5%	19.0%	19.7%	56.8%

Source: Company filings and Taglich Brothers' estimates

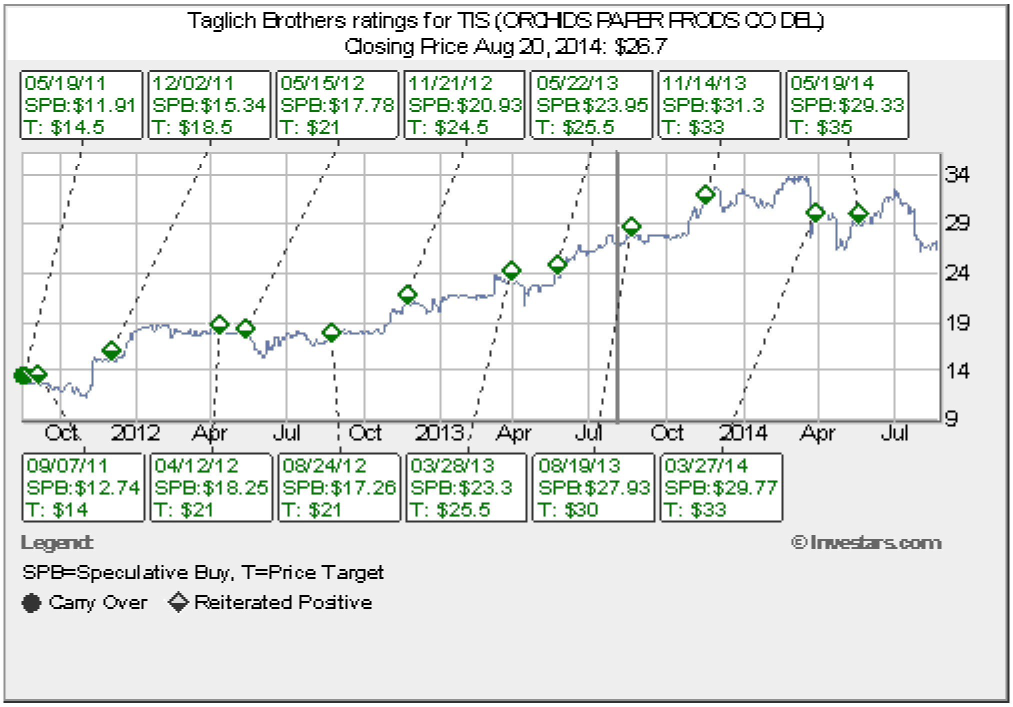
Orchids Paper Products Company

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

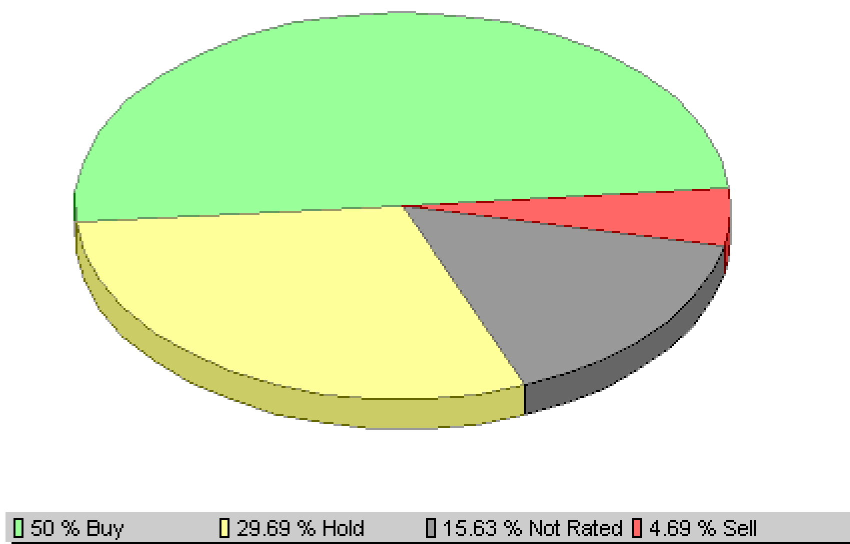
	2011A	2012A	2013A	6mos14A	2014E	2015E
Net income(loss)	6,198	9,257	13,319	3,189	11,112	17,986
Depreciation and amortization	7,132	7,548	7,621	4,591	9,493	9,699
Provision for doubful accounts	(30)	(20)	10	1	10	10
Deferred income taxes	2,359	648	(142)	(311)	(319)	-
Stock based compensation	290	346	346	1,172	1,172	400
Loss on disposal of property, plant and equipment	-	336	(146)	8	8	-
Changes in assets and liabilities						
Accounts receivable	(754)	1,553	(1,189)	(1,901)	(859)	(1,250)
Inventories	(216)	(2,464)	(646)	(3,134)	(1,779)	(1,594)
Prepaid expenses	8	(107)	(226)	173	112	-
Income taxes receivable	2,390	(322)	607	(1,214)	(319)	536
Other current assets	(338)	294	44	(1,972)	(1,972)	-
Accounts payable	(1,730)	165	-	3,083	600	538
Acrrued liabilities	346	217	1,198	(592)	526	765
Net Cash Provided by (Used in) Operations	15,655	17,451	20,796	3,093	17,785	27,090
Acquisition of Fabrica's US business	-	-	-	(16,700)	(16,700)	
Proceeds from the sale of investment securities	7,500	-	(8)	5,037	5,037	-
Purchase of investment securities	-	(3,008)	-	(2)	(2)	-
Purchase of property and equipment	(5,531)	(6,780)	(12,171)	(5,686)	(23,000)	(12,000)
Net Cash Provided by (Used in) Investing	1,969	(9,788)	(12,179)	(17,351)	(34,665)	(12,000)
Borrowings on long-term debt	18,021	-	-	30,000	30,000	-
Principal payments on long-term debt	(2,007)	(1,152)	(1,152)	(15,079)	(15,079)	(5,000)
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)	-	-	3,897	3,897	-
Proceeds from the exercise of stock options	303	974	3,305	79	3,305	3,305
Excess tax benefit of stock options exercised	15	395	1,409	20	1,409	1,409
Deferred debt issuance cost	(59)	-	-	(77)	(77)	-
Dividends paid	(3,753)	(6,443)	(10,708)	(5,650)	(11,300)	(11,300)
Net Cash Provided by (Used in) Financing	(13,469)	(6,226)	(7,146)	13,190	12,155	(11,586)
Net Change in Cash	4,155	1,437	1,471	(1,068)	(4,725)	3,504
Cash - Beginning of Period	142	4,297	5,734	7,205	7,205	2,480
Cash - End of Period	4,297	5,734	7,205	6,137	2,480	5,984
Cash Flow from Operations	15,655	17,451	20,796	3,093	17,785	27,090
Capital Expenditures	(5,531)	(6,780)	(12,171)	(5,686)	(23,000)	(12,000)
Free Cash Flow	10,124	10,671	8,625	(2,593)	(5,215)	15,090

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	2	7
Hold	1	17
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 136,473 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 285,194 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 72,900 shares of TIS common stock (includes 33,477 shares of restricted 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.