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

November 14, 2013

TIS $31.30 — (NYSE MKT)

	2011A	2012A	2013E	2014E
Revenues (millions)	$97.8	$100.8	$116.3	$124.5
Earnings per share	$0.80	$1.18	$1.71	$2.07

52-Week range	$31.48 – $19.78	Fiscal year ends:	December
Shares outstanding a/o 10/25/13	8.0 million	Revenue per share (TTM)	$14.12
Approximate float	6.4 million	Price/Sales (TTM)	2.2X
Market capitalization	$250 million	Price/Sales (FY2014)E	2.0X
Tangible book value/share	$10.41	Price/Earnings (TTM)	20.5X
Price/tangible book value	3.0X	Price/Earnings (FY2014)E	15.1X
Annual dividend	$1.40	Dividend Yield	4.5%

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 $33.00 from $30.00 due to an increase in earnings estimates. Our target implies a total (including dividend) year-ahead return of 10%.

Private label tissue products have gained significant market share since 2007 due to their improved quality and lower prices compared to national brands. Orchids sells predominantly to the private label market.

Orchids generates higher margins from sales of tissue products versus bulk tissue paper. In 2013 Orchids should increase tissue product tonnage by 20% while decreasing bulk tissue paper sales by 39%. We project a further 10% increase in tissue product tonnage to be shipped in 2014 and a corresponding 83% decrease in bulk tissue paper sales.

For 2013, we project revenue of $116.3 million and EPS of $1.71 versus $116.7 million revenue and EPS of $1.65 previously. Our projections reflect 3Q13 results.

For 2014, we project revenue of $124.5 million and EPS of $2.07 versus $126.9 million revenue and EPS of $1.87 previously. The change in our projections reflects higher margins (due to lower paper costs) on less tissue product sales than previously anticipated.

On October 23, 2013, Orchids reported 3Q13 revenue of $29.8 million and EPS of $0.47. We projected 3Q13 revenue of $30.6 million and EPS of $0.43.

Please view our disclosures on pages 14 - 16.

Recommendation and Valuation

Reiterating **Speculative Buy** rating and increasing **12-month price target to $33.00** (previously $30.00) due to an increase in our earnings estimates for 2014. Our target implies a total (including dividend) year-ahead return of 10%.

Orchids' shares traded at an average multiple of 17X TTM earnings in 2012 (which reflects significant levels of higher tier converted products and expectations of dividends). Although Orchids is currently trading at a multiple of 20X TTM earnings, we believe it will not be sustainable given the company is starting to purchase parent rolls in the secondary market which could adversely impact margins. We believe that during the next twelve months, the market will accord the stock a multiple of 16X with the level of sales and earnings we project. Applying a multiple of 16X to our 2014 EPS estimate of $2.07 gives us a price target of approximately $33.00 per share.

New CEO Appointed

On November 5, 2013, Orchids announced that Robert A. Snyder, president, CEO and director of Orchids, will be retiring on December 31, 2013. Snyder resigned from the board of directors of the company effective November 4, 2013, and will step down as president and CEO on November 8, 2013. He will continue to serve in an advisory role until December 31, 2013. Jeffrey S. Schoen succeeds Snyder as president and CEO effective November 8, 2013.

Schoen has been a director since 2007 and chairman since May 2013. From 2002 through 2006, served as executive vice president of Cumberland Swan, Inc., a private label manufacturer of personal care products. From 1999 through 2002, employed by Paragon Trade Brands, a private label manufacturer of disposable diapers and training pants, last serving as vice president of operations. BS in chemical engineering from the University of Wisconsin.

Schoen resigned as chairman of the board, but continues to serve as a director. Steven R. Berlin succeeds Schoen as the new chairman of the board.

Business

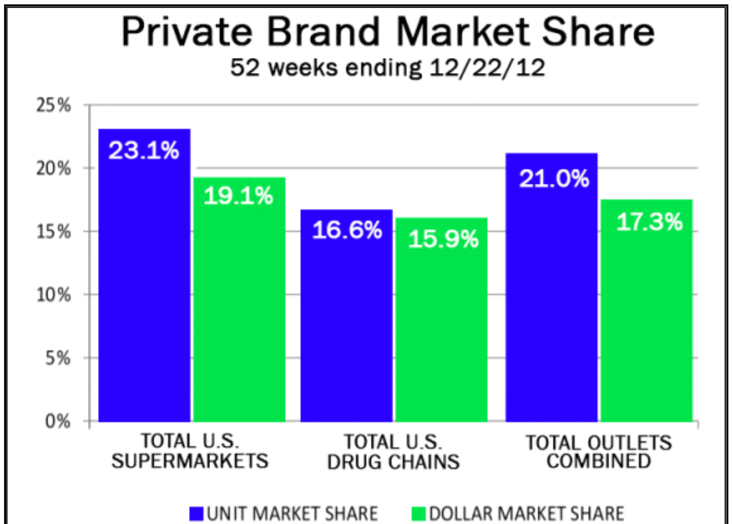
Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, converting it into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer or "at home" market. The company targets the discount retail 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, 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 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 June 2013, the Private Label Manufacturers Association (PLMA) reported that private label brands at supermarkets, drug, and mass merchandise stores increased their market share pushing annual sales up $3 billion to over $108 billion for growth of 2.9%. The PLMA said that private label sales have increased 4.9% annually as compared to 2.1% for national brands due to the rising quality of private label products and erosion of brand name loyalty.

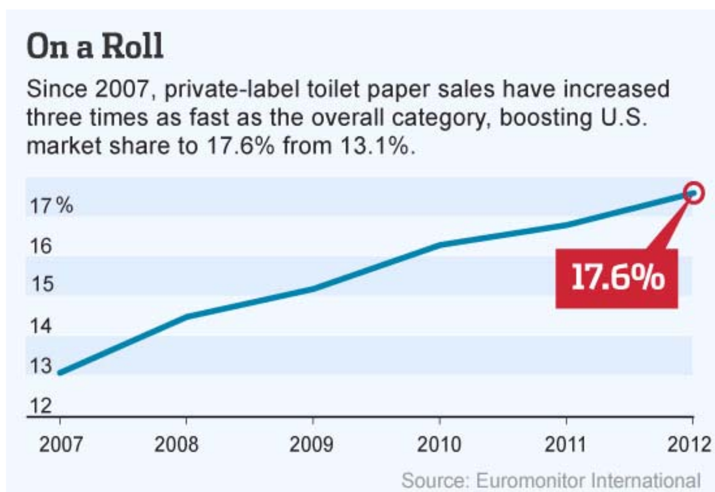
The PLMA reported that consumers are developing new purchasing habits. Satisfaction with store brands during weak economic environments breeds familiarity and then loyalty to these products and the stores that sell them. A breakout of private label market share in the US by supermarkets, drug chains, and total retail outlets combined (consisting of US supermarkets with annual sales over $2 million, drug chains with sales over $1 million, and mass merchandisers including Walmart, club channel, dollar stores and military exchanges) is provided at right.



Source: Private Label Manufacturers Association

On June 18, 2013 Marketing Daily Magazine (Private Label Brands Go Premium, Gain Prestige) reported that private label products have gained significant market share. 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).

IBISWorld expects foreign imports to limit US growth. While domestic demand for high-end products is expected to grow, foreign competition is expected to increase and drive manufacturers out of those markets. The increase in foreign competition is also expected to result in lower prices for sanitary paper products in the US. Lower prices for tissue products in the US are likely to put pressure on Orchids' margins.



In an October 2013 sanitary paper product manufacturing industry report, 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. IBISWorld expects this trend to continue over the next five years. However, the competition from lower-priced imports is expected to mitigate US growth resulting in more moderate industry growth of 2.1% annually in the six years to 2019.

Economic Outlook

In October 2013, the International Monetary Fund (IMF) reduced its US economic growth forecast to 1.6% in 2013 and 2.6% in 2014, down from an earlier (July 2013) growth forecast of 1.7% for 2013 and 2.8% for 2014. The IMF said that sharp fiscal tightening in 2013 has taken its toll on economic growth. However, with fiscal tightening expected to ease in 2014, the IMF is projecting economic growth to increase in 2014.

In October 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 improved moderately in October 2013 and producers' expectations for future activity eased somewhat after rising markedly in September 2013 but remained at solid levels. Several firms noted adverse effects from the government shutdown, particularly related to delays in government inspections and approval processes, lack of data availability, and overall customer uncertainty. Most of the region's future manufacturing indexes eased somewhat after rising markedly in September 2013.

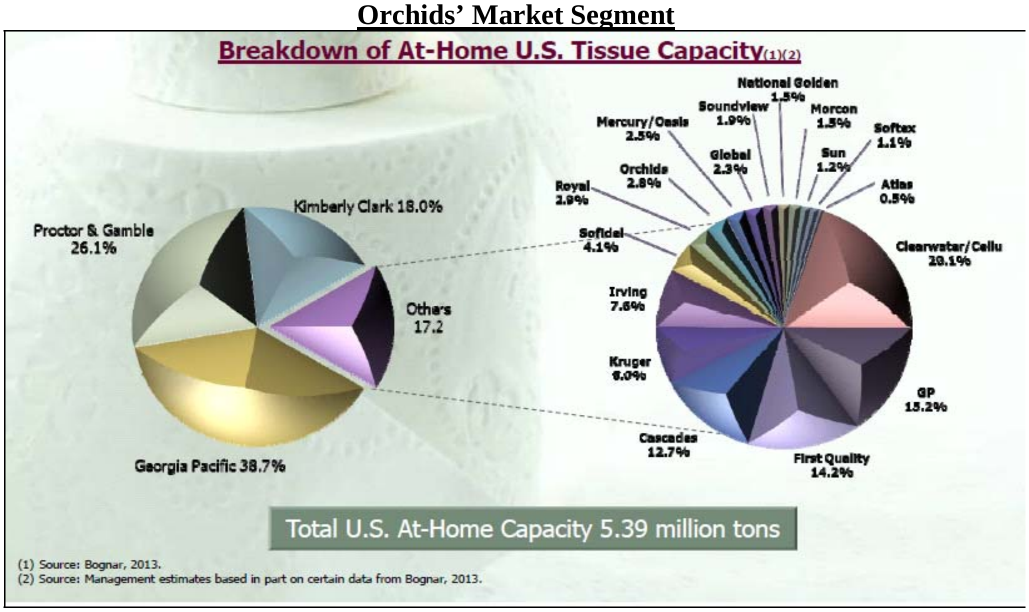
Although tissue products are considered consumer staples and changes in the economy do not typically affect sales of overall tissue products, the recession did help in driving consumption to private label products such as Orchids'.

Market and Competition

IBISWorld estimates the 2013 US sanitary paper product market at $11.5 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $2.4 billion. The overall industry is projected to grow at a compound annual growth rate (CAGR) of 2% over the next six years to $13.1 billion by 2019.

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 2.1% annually from 2013 to 2019.

Orchids' Market Segment



Source: Orchids Paper Products

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 in Texas) 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. 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.

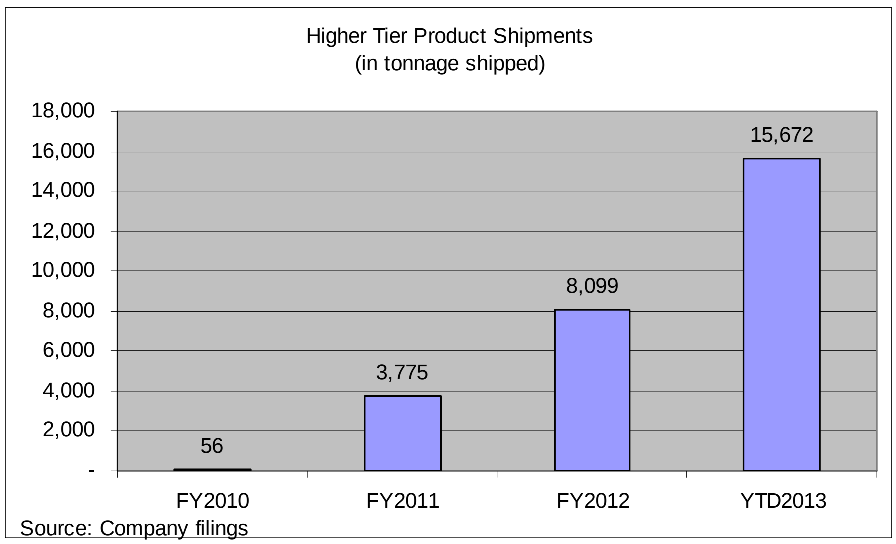
	Clearwater Paper	Cascades	Orchids Paper
2012 Revenue	$1.9B	$3.5B	$100.8M
2012 Gross Margin	13.9%	13.4%	22.4%
2011 Revenue	$1.9B	$3.5B	$97.8M
2011 Gross Margin	11.7%	10.4%	16.3%

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 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 four years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing).



3Q & Nine Months 2013 Financial Results

3Q13 - Sales of $29.8 million were up 15% from $25.8 million in 3Q12. Net income was $3.7 million or $0.47 per share versus net income of $2.3 million or $0.29 per share. We projected 3Q13 sales of $30.6 million and net income of $3.5 million or $0.43 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in 3Q13 increased 24% to $28.2 million while parent roll (bulk tissue paper) sales decreased 48% to $1.6 million.

The increase in converted product sales was due to a 24% increase in tonnage shipped. The increase in converted product shipments was primarily due to 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% from 20.9% 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 $2.1 million from $2 million due to increased commissions. Operating income increased to $5 million or 16.9% of sales from $3.4 million or 13% of sales. Interest expense decreased slightly to $92,000 from $99,000 due to lower debt levels.

Nine Months 2013 - Sales of $85.6 million were up 11% from $76.8 million in the comparable period in 2012. Net income was $10 million or $1.25 per share versus net income of $7.1 million or $0.90 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 17% to $80.6 million while parent roll (bulk tissue paper) sales decreased 38% to $5 million.

The increase in converted product sales was due to a 17% increase in tonnage. The increase in converted product shipments was primarily due to sales in the mid and premium tier markets. Net sales of bulk tissue paper decreased due to the increased requirements of the converting operations.

	9mos13	9mos12	% change
	(in thousands $)		
Net sales	85,601	76,784	11.5%
Cost of sales	64,938	59,657	8.9%
Gross profit	20,663	17,127	20.6%
SG&A expenses	6,912	6,428	7.5%
Operating income (loss)	13,751	10,699	28.5%
Interest expense	280	308	-9.1%
Other (income) expense	(21)	312	-106.7%
Income (loss) before taxes	13,492	10,079	33.9%
Income tax expense (benefit)	3,533	2,995	18.0%
Net income (loss)	9,959	7,084	40.6%
Diluted EPS	1.25	0.90	38.4%
Diluted Shares Outstanding	7,909	7,845	
Margin Analysis			
Gross margin	24.1%	22.3%	
SG&A expenses	8.1%	8.4%	
Operating margin	16.1%	13.9%	
Net margin	11.6%	9.2%	

Source: Company filings

Gross margins increased to 24.1% from 22.3% 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 $6.9 million from $6.4 million due to increased commissions. Operating income increased to $13.8 million or 16.1% of sales from $10.7 million or 13.9% of sales. Interest expense decreased slightly to $280,000 from $308,000 due to lower debt levels.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2014. As of September 30, 2013, Orchids had a strong balance sheet with cash of $5 million and a debt/equity ratio of 0.2 versus 1.1 for the paper products industry.

Cash earnings of $16.3 million and a $4.6 million increase in working capital resulted in $11.7 million cash from operations in the nine month period ended September 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 $7.6 million and $7.9 million in dividend payments reduced cash by $0.7 million to $5 million as of September 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 $15.4 million as of September 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 September 30, 2013, the company was in compliance with these covenants. However, due to the expected level of annual expenditures for 2013, management requested a waiver from certain covenants that effectively limit annual capital expenditures and received an advance waiver from JP Morgan Chase for those covenants.

Projections

4Q13 converted product shipments should exceed 3Q13 converted product shipments by approximately 4% to 5% as some shipments expected for 3Q13 were pushed into 4Q13. We project approximately 9,000 additional tons of converted products being shipped in 2013. There are no sales contracts guaranteeing these orders. However, customer order streams are fairly constant and typically last several years. Our 2013 selling price projections are consistent with year-to-date results. We project 2014 selling prices to increase 2% as a growing economy drives increased demand.

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue ($,000)
2012			
Converted	44,167	$ 2,049	$ 90,498
Parent Roll	9,828	$ 1,049	$ 10,310
Total	53,995	$ 1,867	$ 100,808
2013			
Converted	53,200	$ 2,069	$ 110,071
Parent Roll	6,000	$ 1,029	$ 6,174
Total	59,200	$ 1,964	$ 116,245
2014			
Converted	58,500	$ 2,110	$ 123,435
Parent Roll	1,000	$ 1,050	$ 1,050
Total	59,500	$ 2,092	$ 124,485

Source: Taglich Brothers estimates

Gross margins should improve to 24.1% in 2013 from 22.4% in 2012 due to increases in higher margin converted product sales and lower paper costs ($747/ton year-to-date versus $774/ton in the same period in 2012). We project other variable costs in 2013 to increase as the company purchases parent rolls in an effort to meet its growing converting requirements and to keep a pipeline open for future requirements. Fixed costs are projected to remain near current aggregate levels on a per ton basis.

We project gross margins of 26.4% in 2014 versus 24.1% in 2013 as converted product sales outpace rising paper costs. Our gross margin projection is up from 25% previously as paper costs are projected to be significantly lower than previously anticipated (currently $777/ton versus $907/ton). We lowered our paper cost projection to reflect the significant decrease in Orchids' paper costs over the past two years (down $88/ton or 11% since the peak in 2011). Our paper cost projection is based on IBISWorld's 4% projected increase in pulp prices from current prices (year-to-date average price of $747/ton). Pulp is used as a raw material in papermaking. 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.

COGS (in thousands $) Model

	2009A	2010A	2011A	2012A	2013E	2014E
Variable cost (paper)	$ 36,497	$ 43,947	$ 46,337	$ 42,566	$ 44,222	$ 46,232
Est. variable cost (other)	$ 20,817	$ 20,334	$ 21,373	$ 21,110	$ 28,002	$ 28,977
Total est. variable costs	$ 57,314	$ 64,281	$ 67,710	$ 63,676	$ 72,224	$ 75,208
Est. fixed cost (overhead)	$ 6,939	$ 6,778	$ 7,124	$ 7,036	$ 8,428	$ 8,655
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	$ 15,984	$ 16,363
COGS	$ 67,936	$ 76,752	$ 81,886	$ 78,253	$ 88,208	$ 91,571
Tons shipped	52,355	56,663	55,514	53,995	59,200	59,500
Variable (paper) costs/ton	$ 697	$ 776	$ 835	$ 788	$ 747	$ 777
Est. variable (other) cost/ton	$ 398	$ 359	$ 385	$ 391	$ 473	$ 487
Total variable costs/ton	$ 1,095	$ 1,134	$ 1,220	$ 1,179	$ 1,220	$ 1,264
Fixed costs/ton	$ 203	$ 220	$ 255	$ 270	$ 270	$ 275
Total COGS/ton	$ 1,298	$ 1,355	$ 1,475	$ 1,449	$ 1,490	$ 1,539
Gross profit	$ 28,027	$ 15,752	$ 15,957	$ 22,566	$ 28,043	$ 32,929
Gross margin	29.2%	17.0%	16.3%	22.4%	24.1%	26.4%

Source: Company filings and Taglich Brothers estimates

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.

We project 2013 revenue of $116.3 million and net income of $13.8 million or $1.71 per share. Our projections have changed from $116.7 million revenue and $13.1 million or $1.65 per share net income previously to reflect recent results.

The effective tax rate is estimated at 26.2% 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 $9.1 million in 2013 (of which approximately 1.6% or $1.9 million of sales are commission-related), up 7% versus 2012. The increase in SG&A expenses is primarily due to increases in salaries and commissions associated with increased converted product sales. Operating margins should increase to 16.3% 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 26.2%.

For 2013 we project cash earnings of $21.9 million and a $400,000 decrease in working capital will result in cash from operations of $22.3 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 $5 million pay down of debt, and $10.6 million in dividends, increasing cash by $0.6 million to $6.3 million at December 31, 2013.

We project 2014 revenue of $124.5 million and net income of $16.8 million or $2.07 per share. The change in our projections (from $126.9 million revenue and $15 million or $1.87 per share net income) reflects higher margins on lower converted product tonnage shipments. Gross margins should benefit from significantly lower paper costs than previously expected. Our projections are based on a further 10% increase in converted product tonnage to be shipped in 2014 (as we do not believe the 20% rate in 2013 sustainable) and minimal parent roll sales.

We project SG&A expenses of $9.4 million in 2014 (of which approximately 1.6% or $2 million of sales are commission-related), up 4% versus 2013. The increase in SG&A expenses is primarily due to increases in salaries and commissions associated with increased converted product sales. Operating margins are projected to increase to 18.9% due to the gross profit gains discussed earlier. The tax rate is estimated at 27.5% to reflect tax credits.

For 2014 we project cash earnings of $25 million and a $0.9 million increase in working capital will result in cash from operations of $24.1 million. The increase in working capital is primarily due to increases in accounts receivables and inventories. Cash from operations will cover $10 million of capital expenditures, a $5 million pay down of debt, and $11 million in dividends, increasing cash by $2 million to $8.3 million at December 31, 2014.

Risks

Customer concentration

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.

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.

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 6.4 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.

Consolidated Balance Sheets
(in thousands $)

	2010A	2011A	2012A	9/13A	2013E	2014E
Cash	142	4,297	5,734	5,030	6,308	8,293
Accounts receivable	6,155	6,939	5,406	7,901	6,233	6,676
Inventories	7,595	7,811	10,275	11,802	11,582	12,024
Short term investments	9,518	2,019	5,027	5,033	5,033	5,033
Income taxes receivable	3,952	285	607	1,063	844	1,052
Prepaid expenses	538	530	637	1,129	734	787
Other	-	338	44	-	-	-
Deferred income taxes	790	410	393	277	547	681
Total current assets	28,690	22,629	28,123	32,235	31,281	34,546
Property, plant and equipment	93,805	92,285	91,188	93,061	91,581	93,873
Deferred debt issuance costs	76	54	47	42	42	42
Total Assets	122,571	114,968	119,358	125,338	122,904	128,461
Accounts payable	5,250	3,520	3,685	3,312	4,154	4,312
Accrued liabilities	2,269	2,615	2,832	3,540	3,265	3,497
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	8,004	8,571	8,961
Long-term debt	16,615	16,231	15,079	14,215	10,079	5,079
Deferred income taxes	18,099	18,801	19,432	19,590	19,590	19,590
Total liabilities	52,975	42,319	42,180	41,809	38,240	33,630
Total stockholders' equity	69,596	72,649	77,178	83,529	84,664	94,830
Total liabilities & stockholders' equity	122,571	114,968	119,358	125,338	122,904	128,461

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	116,251	124,500
Cost of sales	76,752	81,886	78,253	88,208	91,571
Gross profit	15,752	15,957	22,566	28,043	32,929
SG&A expenses	6,618	6,810	8,456	9,062	9,400
Operating income (loss)	9,134	9,147	14,110	18,981	23,529
Interest expense	934	647	407	370	320
Other (income) expense	(65)	(42)	302	(26)	(20)
Income (loss) before taxes	8,265	8,542	13,401	18,637	23,229
Income tax expense (benefit)	2,351	2,344	4,144	4,881	6,385
Net income (loss)	5,914	6,198	9,257	13,756	16,844
EPS	0.76	0.80	1.18	1.71	2.07
Shares Outstanding	7,755	7,722	7,832	8,026	8,150
Margin Analysis					
Gross margin	17.0%	16.3%	22.4%	24.1%	26.4%
SG&A expenses	7.2%	7.0%	8.4%	7.8%	7.6%
Operating margin	9.9%	9.3%	14.0%	16.3%	18.9%
Net margin	6.4%	6.3%	9.2%	11.8%	13.5%
Tax rate	28.4%	27.4%	30.9%	26.2%	27.5%
Year / Year Growth					
Total Revenues	(3.6%)	5.8%	3.0%	15.3%	7.1%
Net Income	(56.4%)	4.8%	49.4%	48.6%	22.4%
EPS	(59.6%)	5.3%	47.3%	45.0%	20.6%

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	9/13A	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	29,760	30,650	116,251	30,000	30,750	32,000	31,750	124,500
Cost of sales	19,594	19,675	20,388	18,596	78,253	20,082	22,236	22,620	23,270	88,208	22,780	22,580	23,131	23,080	91,571
Gross profit	6,133	5,604	5,390	5,439	22,566	6,527	6,996	7,140	7,380	28,043	7,220	8,170	8,869	8,670	32,929
SG&A expenses	2,287	2,112	2,029	2,028	8,456	2,273	2,517	2,122	2,150	9,062	2,275	2,325	2,425	2,375	9,400
Operating income (loss)	3,846	3,492	3,361	3,411	14,110	4,254	4,479	5,018	5,230	18,981	4,945	5,845	6,444	6,295	23,529
Interest expense	107	102	99	99	407	93	95	92	90	370	80	80	80	80	320
Other (income) expense	(7)	323	(4)	(10)	302	(5)	(7)	(9)	(5)	(26)	(5)	(5)	(5)	(5)	(20)
Income (loss) before taxes	3,746	3,067	3,266	3,322	13,401	4,166	4,391	4,935	5,145	18,637	4,870	5,770	6,369	6,220	23,229
Income tax expense (benefit)	1,224	830	941	1,149	4,144	1,073	1,248	1,212	1,348	4,881	1,339	1,587	1,748	1,711	6,385
Net income (loss)	2,522	2,237	2,325	2,173	9,257	3,093	3,143	3,723	3,797	13,756	3,531	4,183	4,621	4,510	16,844
EPS	0.32	0.29	0.29	0.28	1.18	0.39	0.39	0.47	0.47	1.71	0.43	0.51	0.57	0.55	2.07
Shares Outstanding	7,855	7,844	7,863	7,899	7,832	7,895	7,984	8,074	8,150	8,026	8,150	8,150	8,150	8,150	8,150
Margin Analysis															
Gross margin	23.8%	22.2%	20.9%	22.6%	22.4%	24.5%	23.9%	24.0%	24.1%	24.1%	24.1%	26.6%	27.7%	27.3%	26.4%
SG&A expenses	8.9%	8.4%	7.9%	8.4%	8.4%	8.5%	8.6%	7.1%	7.0%	7.8%	7.6%	7.6%	7.6%	7.5%	7.6%
Operating margin	14.9%	13.8%	13.0%	14.2%	14.0%	16.0%	15.3%	16.9%	17.1%	16.3%	16.5%	19.0%	20.1%	19.8%	18.9%
Net margin	9.8%	8.8%	9.0%	9.0%	9.2%	11.6%	10.8%	12.5%	12.4%	11.8%	11.8%	13.6%	14.4%	14.2%	13.5%
Tax rate	32.7%	27.1%	28.8%	34.6%	30.9%	25.8%	28.4%	24.6%	26.2%	26.2%	27.5%	27.5%	27.5%	27.5%	27.5%
Year / Year Growth															
Total Revenues	13.5%	8.1%	(1.3%)	(6.4%)	3.0%	3.4%	15.6%	15.4%	27.5%	15.3%	12.7%	5.2%	7.5%	3.6%	7.1%
Net Income	306.8%	86.9%	41.2%	(20.5%)	49.4%	22.6%	40.5%	60.1%	74.7%	48.6%	14.2%	33.1%	24.1%	18.8%	22.4%
EPS	299.4%	83.6%	36.2%	(21.8%)	47.3%	22.0%	38.0%	62.1%	69.4%	45.0%	10.6%	30.4%	20.6%	18.8%	20.6%

Source: Company filings and Taglich Brothers' estimates

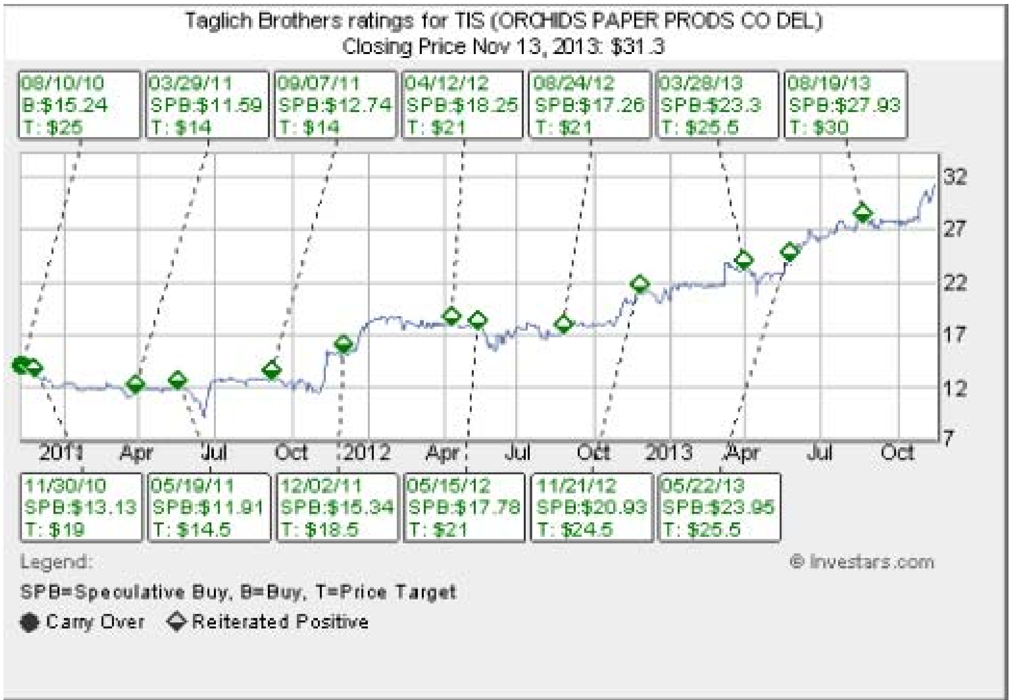
Orchids Paper Products Company

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

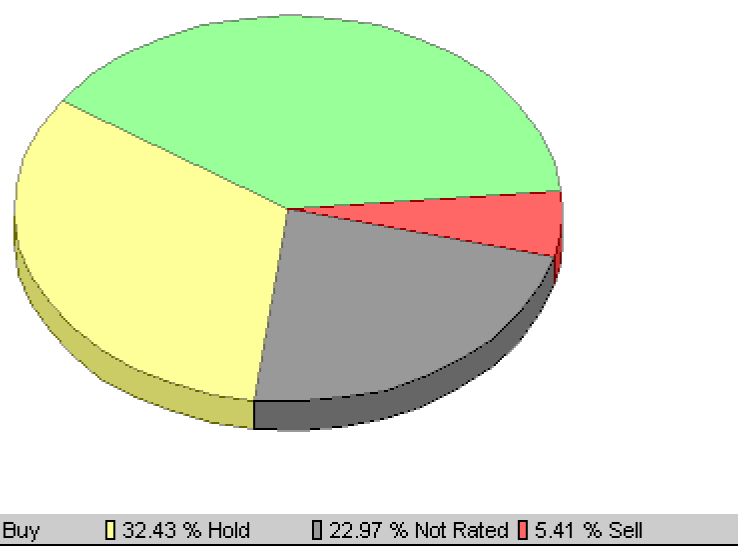
	2010A	2011A	2012A	9mos13A	2013E	2014E
Net income(loss)	5,914	6,198	9,257	9,959	13,756	16,844
Depreciation and amortization	5,725	7,132	7,548	5,696	7,556	7,708
Provision for doubful accounts	(34)	(30)	(20)	(5)	(20)	(20)
Deferred income taxes	3,519	2,359	648	274	158	-
Stock based compensation	562	290	346	380	425	450
Loss on disposal of property, plant and equipment	-	-	336	-	-	-
Changes in assets and liabilities						
Accounts receivable	629	(754)	1,553	(2,490)	(827)	(442)
Inventories	(26)	(216)	(2,464)	(1,527)	(1,307)	(442)
Prepaid expenses	(41)	8	(107)	(492)	(97)	(53)
Income taxes receivable	(3,952)	2,390	(322)	(456)	1,685	(322)
Other current assets	-	(338)	294	44	44	-
Accounts payable	1,201	(1,730)	165	(373)	469	158
Acrrued liabilities	(849)	346	217	708	433	232
Net Cash Provided by (Used in) Operations	12,648	15,655	17,451	11,718	22,275	24,113
Proceeds from the sale of investment securities	8,991	7,500	-	-	-	-
Purchase of investment securities	-	-	(3,008)	(6)	(6)	-
Purchase of property and equipment	(26,786)	(5,531)	(6,780)	(7,564)	(10,000)	(10,000)
Net Cash Provided by (Used in) Investing	(17,795)	1,969	(9,788)	(7,570)	(10,006)	(10,000)
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)	(864)	(5,000)	(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	(2,672)	-	-	-	-
Proceeds from the exercise of warrants attached to debentures	-	-	-	-	-	-
Proceeds from the exercise of stock options	-	303	974	2,942	2,942	2,942
Excess tax benefit of stock options exercised	-	15	395	963	963	963
Deferred debt issuance cost	(25)	(59)	-	-	-	-
Dividends paid	-	(3,753)	(6,443)	(7,893)	(10,600)	(11,033)
Net Cash Provided by (Used in) Financing	4,057	(13,469)	(6,226)	(4,852)	(11,695)	(12,128)
Net Change in Cash	(1,090)	4,155	1,437	(704)	574	1,985
Cash - Beginning of Period	1,232	142	4,297	5,734	5,734	6,308
Cash - End of Period	142	4,297	5,734	5,030	6,308	8,293
Cash Flow from Operations	12,648	15,655	17,451	11,718	22,275	24,113
Capital Expenditures	(26,786)	(5,531)	(6,780)	(7,564)	(10,000)	(10,000)
Free Cash Flow	(14,138)	10,124	10,671	4,154	12,275	14,113

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). 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.

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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.