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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
November 21, 2012

TIS $20.93 — (NYSE AMEX)

	2010A	2011A	2012E	2013E
Revenues (millions)	$92.5	$97.8	$103.7	$112.3
Earnings per share	$0.76	$0.80	$1.28	$1.73

52-Week range	$22.07 – $14.88	Fiscal year ends:	December
Shares outstanding a/o 10/31/12	7.6 million	Revenue per share (TTM)	$13.08
Approximate float	5.5 million	Price/Sales (TTM)	1.6X
Market capitalization	$159 million	Price/Sales (FY2013)E	1.5X
Tangible book value/share	$10.03	Price/Earnings (TTM)	16.7X
Price/tangible book value	2.1X	Price/Earnings (FY2013)E	12.1X
Annual dividend	$1.00	Dividend Yield	4.8%

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:

Reiterate Speculative Buy rating. Increasing 12-month price target to $24.50 from $21.00 based on increased sales and earnings estimates.

Growth of private label products such as Orchids' in the American tissue market has been steady. In April 2012, Tissue World Magazine reported that consumers increasingly prefer private labels over more expensive branded products.

Orchids' year-over-year earnings have increased 156% over the past twelve months due to increasing sales of higher margin converted products. Additional converted product orders (7,000 tons annually), expected to start shipping in 4Q12, should increase earnings through 2013.

We project 2012 revenue of $103.7 million and EPS of $1.28 versus earlier estimates of $103.7 million revenue and EPS of $1.14. The increase in EPS reflects 3Q12 results and higher margins from decreasing paper costs. We project 2013 revenue of $112.3 million and EPS of $1.73 per share versus earlier estimates of $108.4 million revenue and EPS of $1.27 per share. The increase reflects additional converted product tonnage from recent orders.

On October 24, 2012, Orchids reported 3Q12 sales decreased 1% to $25.8 million. 3Q12 EPS of $0.29 (versus $0.21 in 3Q11). We projected 3Q12 EPS of $0.24.

Please view our disclosures on pages 13 - 15.

Recommendation and Valuation

Reiterate **Speculative Buy** rating. Increasing **12-month price target to $24.50** from $21.00 due to an increase in sales and earnings estimates.

Orchids' shares traded at an average multiple of 16X TTM earnings and 1.4X sales last year and are currently trading at a multiple of 17X earnings and 1.6X sales. In light of recent valuations, we are lowering our earnings multiple to 16X from 17X previously. Applying a multiple of 16X to our earnings per share estimate of $1.73 for 2013 gives us a price target of approximately $27.50 per share. Applying a multiple of 1.5X sales to our sales per share estimate of $14.28 for 2013 gives us a price target of approximately $21.50 per share. Averaging the two valuations gives us a twelve-month price target of approximately $24.50 per share.

Recent Developments

New Converted Products Business – In October 2012, Orchids announced new orders for converted products form both existing and new customers that are expected to start shipping in 4Q12. The company expects sales from this new business, when combined with sales from the new business announced in the 2Q12 earnings release (700,000 cases annually or approximately 4,500 tons), to be approximately 1.1 million cases or 7,000 tons on an annualized basis. This represents an approximate 17% increase over the run rate for cases shipped in 2Q12.

Increased Dividend – In November 2012, Orchids' board of directors authorized an increase in the company's quarterly cash dividend to $0.25 per share from $0.20 per share effective for the dividend payable on December 18, 2012.

Business

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 targets the discount retail market, primarily dollar store retailers, due to their consistent order patterns, limited number of stock keeping units (SKUs) offered and the growth in this channel of the retail market. While Orchids has customers located throughout the United States, 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. Because Orchids products are daily consumable items, order streams are fairly consistent with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products.

An article in Tissue World Magazine (Operations Report on Clearwater Paper; April/May 2012) said that private label growth in the American tissue market has been steady. More and more consumers now prefer private labels as an alternative to more expensive branded products.

In August 2012, IBISWorld said that revenue from paper towels is estimated to have decreased slightly as a share of the sanitary paper products industry revenue over the past five years. This is largely due to strong competition among major players, and the emergence of generic brands that sell similar products at much lower prices. Also, demand was hurt by the recession over 2008 and 2009, when customers substituted name brands with that of cheaper products.

While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 1.3% from 2012 to 2017.

Economic Outlook

In October 2012, the International Monetary Fund (IMF) revised its projections for US economic growth to 2.2% in 2012 and 2.1% in 2013. These are slightly changed from earlier projections (July 2012) of 2.1% in 2012 and 2.2% in 2013. The IMF said that a modest recovery was continuing but downside risks remain elevated. If US policy makers fail to reach consensus on extending tax cuts and reversing deep automatic spending cuts, the IMF projects the US economy could face a steep decline in 2013.

In November 2012, the Institute for Supply Management (ISM) released its manufacturing report for the month of October. The ISM said that US economic activity in the manufacturing sector expanded in October 2012 for the second consecutive month following three months of slight contraction, and the overall economy grew for the 41st consecutive month.

The outlook for Orchids' focus region remains slightly positive. In October 2012, The Federal Reserve Bank of the Tenth Federal Reserve District released its survey of that district's manufacturing activity (includes the majority of the states that Orchids' sales efforts are focused on – the Oklahoma region). The survey reported that the region's manufacturing activity declined slightly in October, but producers' expectations for future activity remained slightly positive.

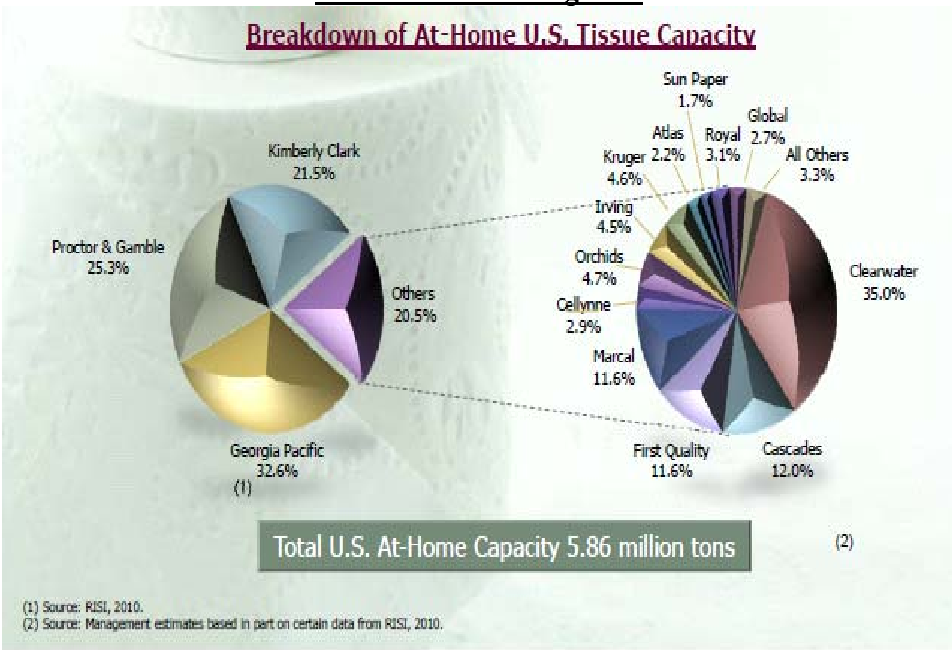
Market and Competition

Industry research firm RISI breaks down the North American tissue market as follows: toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other (1%).

According to IBISWorld, the US tissue market (paper towels, bathroom tissue, and paper napkins) is estimated at $2.6 billion in 2012. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 1.3% from 2012 to 2017.

Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $57.6 billion in 2012. IBISWorld projects dollar and variety stores' revenue growth averaging 2.5% annually from 2012 to 2017.

<u>Orchids' Market Segment</u>



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 stores approximately 70% in shipping costs compared with most competitors' products, a significant competitive advantage. However, over the past two years, competitors have moved into Orchids' operating region (within Orchids' focused 500-mile sales area). This increased competition in the company's focused region has reduced its competitive cost advantage and lowered margins. This can be evidenced in part by looking at the decline in Orchids' gross margins over the past two years. Orchids' gross margins declined from 29.2% in 2009 to 17.0% in 2010, and 16.3% in 2011.

Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of end product costs. Although it is economically feasible to ship within a 900-mile radius of Orchids' production site, the company is focused on a 500-mile radius. 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 are competitors who have plants in this region.

We were only able to obtain financial information for Clearwater Paper and Cascades as they were the only publicly held direct competitors. Clearwater Paper's revenue for the first nine months of 2012 and 2011 was $1.4 billion and $1.5 billion respectively, with gross margins of 14.2% and 11.2% respectively, while Cascades nine months revenue was $2.7 billion for both 2012 and 2011, with gross margins of 13.9% and 10.5%, respectively. These competitors' lower gross margins when compared to Orchids' (22.3% in 2012 and 14.4% in 2011) could lead them to expand in Orchids' geographic focus region. This could lead to competitive pressure on Orchids' pricing and margins.

3rd Quarter and Nine Months Financial Results

3Q12 sales of $25.8 million were down 1% from $26.1 million in 3Q11. Net income was $2.3 million or $0.29 per share versus net income of $1.6 million or $0.21 per share. We estimated 3Q12 sales of $25.8 million and net income of $1.9 million or $0.24 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in 3Q12 increased 6% to $22.8 million while parent roll (bulk tissue paper) sales decreased 36% to $3 million. Total tons shipped decreased to 14,015 from 14,881, while paper costs decreased 12% to approximately $11.1 million. The overall net selling price per ton increased 5% to $1,839.

The increase in converted product sales in 3Q12 was due to an 8% increase in tonnage shipped, partially offset by a 2% decrease in net selling price per ton. The increase in converted product shipments was primarily due to new product sales in the mid-tier market. Net sales of parent rolls decreased due to the increased requirements of the converting operations.

Gross margins increased to 20.9% in 3Q12 from 15.1% in 3Q11 primarily due to a tilt in sales mix to higher margin converted product shipments and lower raw material costs. Selling, general and administrative (SG&A) expenses increased to $2 million from $1.5 million primarily due to increased packaging related costs related to new product introductions, increased bonuses, and higher professional fees. The increase in revenue and gross profit offset the increase in SG&A expenses, increasing operating margin to 13% from 9.3%. Interest expense remained relatively flat at $99,000.

Sales in the first nine months of FY12 were up 6% to $76.8 million from $72.2 million in the comparable period in FY11. Net income was $7.1 million or $0.90 per share versus net income of $3.5 million or $0.45 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 18% to $68.7 million while parent roll (bulk tissue paper) sales decreased 42% to $8.1 million. Total tons shipped decreased to 41,399 from 42,089, while paper costs decreased 9% to approximately $32.1 million. The overall net selling price per ton increased 8% to $1,855.

The increase in converted product sales was due to a 21% increase in tonnage shipped, partially offset by a 2% decrease in net selling price per ton. The increase in converted product shipments was primarily due to new product sales in the mid-tier market and increased demand from existing customers. Net sales of parent rolls decreased due to the increased requirements of the converting operations.

Gross margins increased to 22.3% from 14.4% primarily due to increased levels of higher margin converted product shipments and lower raw material costs. Selling, general and administrative (SG&A) expenses increased to $6.4 million from $4.9 million primarily due to increased professional fees, sales commissions due to the higher levels of converted product sales, bonuses and packaging related expenditures. The increase in revenue and gross profit offset the increase in SG&A expenses, increasing operating margin to 13.9% from 7.6%. Interest expense decreased to $308,000 from $0.5 million due to lower debt levels.

	9mos12	9mos11
	(in thousands $)	
Net sales	76,784	72,168
Cost of sales	59,657	61,807
Gross profit	17,127	10,361
SG&A expenses	6,428	4,904
Operating income (loss)	10,699	5,457
Interest expense	308	543
Other (income) expense	312	(33)
Income (loss) before taxes	10,079	4,947
Income tax expense (benefit)	2,995	1,483
Net income (loss)	7,084	3,464
Diluted EPS	0.90	0.45
Diluted Shares Outstanding	7,845	7,715
Margin Analysis		
Gross margin	22.3%	14.4%
SG&A expenses	8.4%	6.8%
Operating margin	13.9%	7.6%
Net margin	9.2%	4.8%

Source: Company filings

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2013. As of September 30, 2012, Orchids' has a strong balance sheet with cash of $3.8 million and a debt/equity ratio of 0.2 versus 1.0 for the paper products industry.

Cash earnings of $13.4 million and a $1.7 million increase in working capital resulted in $11.8 million cash from operations in the first nine months of FY12. The changes in working capital were primarily driven by a $1.5 million increase in accounts receivable.

The company purchased $3 million of investment securities and had $4.3 million of capital expenditures. A net reduction in debt of $0.9 million, $4.5 million in dividend payments, and $384,000 in proceeds from the exercise of stock options reduced cash by $0.5 million to $3.8 million as of September 30, 2012.

In 2011, Orchids paid off $17.5 million in loans under its existing credit facility and entered into a new $36 million credit agreement with JP Morgan Chase that provided 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 $16.5 million as of September 30, 2012.

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, 2012, the company was in compliance with these covenants.

Projections

We project a 10% increase in converted product tonnage in 2012, as there should be a full year's contribution from a 2011 order for 700,000 cases annually (approx. 4,500 tons that started shipping late in 2Q11) and new orders totaling 7,000 tons/year are expected to start shipping in 4Q12. Our research has shown that in the industry, sales contracts are not the norm. However, customer order streams are fairly consistent and typically last several years.

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue
2011			
Converted	39,300	$ 2,084	$ 81,901,200
Parent Roll	16,200	$ 982	$ 15,908,400
Total	55,500	$ 1,762	$ 97,809,600
2012			
Converted	43,200	$ 2,105	$ 90,936,000
Parent Roll	12,800	$ 996	$ 12,748,800
Total	56,000	$ 1,852	$ 103,684,800
2013			
Converted	50,000	$ 2,126	$ 106,300,000
Parent Roll	6,000	$ 1,006	$ 6,036,000
Total	56,000	$ 2,006	$ 112,336,000

Source: Taglich Brothers estimates

With the new orders, if they fully materialize, we anticipate a 16% increase in converted product tonnage shipped for 2013. Selling prices (converted and parent roll) are projected to increase by 1% annually through our forecast horizon, consistent with IBISWorld projections for paper manufacturer selling price increases through 2017. These factors should result in revenue of approximately $103.7 million in 2012 and $112.3 million in 2013.

Orchids' results over the past few years show over 80% of manufacturing costs are variable with the cost of paper averaging 56% of total cost of sales and other variable costs (packaging supplies, direct labor, freight, etc.) averaging 28%. The following table shows our estimated costs per ton (variable and fixed) over the past three years and our estimates for 2012 and 2013.

COGS (in thousands $) Model

	2009A	2010A	2011A	2012E	2013E
Variable cost (paper)	$ 36,497	$ 43,947	$ 46,337	$ 43,344	$ 44,800
Est. variable cost (other)	$ 20,817	$ 20,334	$ 21,373	$ 22,603	$ 24,489
Total est. variable costs	$ 57,314	$ 64,281	$ 67,710	$ 65,947	$ 69,289
Est. fixed cost (overhead)	$ 6,939	$ 6,778	$ 7,124	$ 7,124	$ 7,124
Fixed cost (depreciation)	$ 3,683	$ 5,693	$ 7,052	$ 6,905	$ 6,760
Total est. fixed costs	$ 10,622	$ 12,471	$ 14,176	$ 14,029	$ 13,884
COGS	$ 67,936	$ 76,752	$ 81,886	$ 79,976	$ 83,173
Tons shipped	52,355	56,663	55,514	56,000	56,000
Variable (paper) costs/ton	$ 697	$ 776	$ 835	$ 774	$ 800
Est. variable (other) cost/ton	$ 398	$ 359	$ 385	$ 404	$ 437
Total variable costs/ton	$ 1,095	$ 1,134	$ 1,220	$ 1,178	$ 1,237
Fixed costs/ton	$ 203	$ 220	$ 255	$ 251	$ 248
Total COGS/ton	$ 1,298	$ 1,355	$ 1,475	$ 1,428	$ 1,485
Gross profit	$ 28,027	$ 15,752	$ 15,957	$ 23,708	$ 29,127
Gross margin	29.2%	17.0%	16.3%	22.9%	25.9%

Source: Company filings and Taglich Brothers estimates

We project paper costs to average $774/ton in 2012. Our projection is in line with nine-month results and takes into consideration a projected 8% decrease in pulp prices in 2012 (IBISWorld). We are projecting paper costs to average $800/ton in 2013, in line with the 3% average annual price increase projected by IBISWorld over the next five years. We project other variable costs to increase in 2012 and 2013 but remain at 21.8% of sales, consistent with the past few years. Fixed costs are projected to remain near current levels in total, not per ton, through our forecast horizon.

We project 2012 revenue of $103.7 million and net income of $10 million or $1.28 per share. Our 2012 revenue projection is unchanged at $103.7 million but our net income projection has been increased to $10 million or $1.28 per share from $8.9 million or $1.14 per share. The increase reflects 3Q12 results and higher margins from decreasing paper costs. We have raised our gross margin estimate to 22.9% (previously 21.4%) accordingly.

SG&A expenses are projected to increase 28% to $8.7 million in 2012 (of which approximately 17% or $1.5 million of SG&A expenses are commission related). SG&A margins are projected to increase to 8.3% (from 7% in 2011) as professional fees, commission expense, and bonuses outpace the growth in revenue (as they have in the first nine months of 2012). Operating margins should increase to 13.9% in 2012 from 9.3% in 2011 due to increased higher margin converted product sales offsetting the increase in operating expenses. The tax rate is estimated at 30% based on company guidance. Days sales outstanding and inventory turnover are projected to remain at 26 and 10, respectively.

For 2012 we are projecting cash earnings of $18 million and a $388,000 decrease in working capital will result in cash from operations of approximately $18.4 million. The decrease in working capital is primarily due to a $292,000 decrease in other current assets, a $285,000 decrease in taxes receivable, and a $156,000 increase in accrued liabilities, offset in part by a $414,000 increase in accounts receivable. Cash from operations will nearly cover a $3 million purchase of investment securities, $5 million of capital expenditures, a $4.5 million net pay down of debt, and $6.4 million in dividends, decreasing cash by $52,000 to $4.2 million at December 31, 2012.

We project 2013 revenue of $112.3 million and net income of $13.6 million or $1.73 per share. We previously projected 2012 revenue of $108.4 million and net income of $10 million or $1.27 per share. The increase reflects additional converted product tonnage from recent orders totaling 7,000 tons/year. Our gross margin projection of 25.9% reflects a paper cost estimate of $800/ton.

We project SG&A expenses of $9.3 million in 2013 (of which approximately 17% or $1.6 million of SG&A expenses are commission-related). Operating margins should increase to 17.2% in 2013 from 13.9% in 2012 due to increased tonnage of higher margin converted products. The tax rate is estimated at 30%. Days sales outstanding and inventory turnover are projected to remain at 26 and 10 respectively.

For 2013 we project cash earnings of $21.1 million and a $0.6 million increase in working capital will result in cash from operations of $20.5 million. The increase in working capital is primarily due to a $0.6 million increase in accounts receivable and a $300,000 increase in inventories, offset in part by a $230,000 increase in accrued liabilities and a $137,000 increase in accounts payable. Cash from operations will more than cover $5.0 million of capital expenditures, a $5.0 million net pay down of debt, and $7.6 million in dividends, increasing cash by $3.5 million to $7.7 million at December 31, 2013.

Risks

Customer concentration

Three customers (Dollar General, Family Dollar, and Wal-Mart) accounted for approximately 72% of converted product sales in 2011. 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 focused region has reduced some of its competitive cost advantages and lowered margins due to 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

Our research has shown that in the industry, sales contracts are not the norm. Although orders typically last several years, there can be no guarantee as to their length.

Unexpected shutdowns

Unexpected production disruptions could cause the company to shut down its paper mill. Those disruptions could occur due to shortages of raw materials, disruptions in the availability of transportation, labor union disputes and mechanical or process failures.

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 5.5 million shares in the float with an average daily volume of approximately 18,000 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	9/12A	2012E	2013E
Cash	142	4,297	3,755	4,245	7,739
Accounts receivable	6,155	6,939	8,446	7,353	7,964
Inventories	7,595	7,811	9,099	7,629	7,934
Short term investments	9,518	2,019	5,024	5,024	5,024
Income taxes receivable	3,952	285	-	-	-
Prepaid expenses	538	530	999	561	587
Other	-	338	46	-	-
Deferred income taxes	790	410	410	410	410
Total current assets	28,690	22,629	27,779	25,222	29,658
Property, plant and equipment	93,805	92,285	90,657	90,380	88,620
Deferred debt issuance costs	76	54	49	32	10
Total Assets	**122,571**	**114,968**	**118,485**	**115,634**	**118,288**
Accounts payable	5,250	3,520	4,003	3,438	3,575
Accrued liabilities	2,269	2,615	3,126	2,771	3,001
Current portion of long-term debt	10,742	1,152	1,152	1,152	1,152
Total current liabilities	18,261	7,287	8,281	7,361	7,729
Long-term debt	16,615	16,231	15,367	11,731	6,731
Deferred income taxes	18,099	18,801	18,910	19,100	19,400
Total liabilities	**52,975**	**42,319**	**42,558**	**38,192**	**33,860**
Total stockholders' equity	**69,596**	**72,649**	**75,927**	**77,442**	**84,428**
Total liabilities & stockholders' equity	**122,571**	**114,968**	**118,485**	**115,634**	**118,288**

Source: Company filings and Taglich Brothers' estimates

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

	2009A	2010A	2011A	2012E	2013E
Net sales	95,963	92,504	97,843	103,684	112,300
Cost of sales	67,936	76,752	81,886	79,976	83,173
Gross profit	28,027	15,752	15,957	23,708	29,127
SG&A expenses	7,343	6,618	6,810	8,653	9,300
Operating income (loss)	20,684	9,134	9,147	15,055	19,827
Interest expense	692	934	647	408	400
Other (income) expense	(24)	(65)	(42)	297	(60)
Income (loss) before taxes	20,016	8,265	8,542	14,350	19,487
Income tax expense (benefit)	6,464	2,351	2,344	4,305	5,846
Net income (loss)	13,552	5,914	6,198	10,045	13,641
EPS	1.89	0.76	0.80	1.28	1.73
Shares Outstanding	7,177	7,755	7,722	7,856	7,863
Margin Analysis					
Gross margin	29.2%	17.0%	16.3%	22.9%	25.9%
SG&A expenses	7.7%	7.2%	7.0%	8.3%	8.3%
Operating margin	21.6%	9.9%	9.3%	14.5%	17.7%
Net margin	14.1%	6.4%	6.3%	9.7%	12.1%
Tax rate	32.3%	28.4%	27.4%	30.0%	30.0%
Year / Year Growth					
Total Revenues	6.4%	(3.6%)	5.8%	6.0%	8.3%
Net Income	161.1%	(56.4%)	4.8%	62.1%	35.8%
EPS	138.0%	(59.6%)	5.3%	59.3%	35.7%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2011, 2012, and 2013
(in thousands $)

	3/11A	6/11A	9/11A	12/11A	2011A	3/12A	6/12A	9/12A	12/12E	2012E	3/13E	6/13E	9/13E	12/13E	2013E
Net sales	22,675	23,383	26,110	25,675	97,843	25,727	25,279	25,778	26,900	103,684	28,000	28,050	28,100	28,150	112,300
Cost of sales	19,967	19,666	22,174	20,079	81,886	19,594	19,675	20,388	20,319	79,976	20,793	20,793	20,793	20,794	83,173
Gross profit	2,708	3,717	3,936	5,596	15,957	6,133	5,604	5,390	6,581	23,708	7,207	7,257	7,307	7,356	29,127
SG&A expenses	1,580	1,816	1,508	1,906	6,810	2,287	2,112	2,029	2,225	8,653	2,325	2,325	2,325	2,325	9,300
Operating income (loss)	1,128	1,901	2,428	3,690	9,147	3,846	3,492	3,361	4,356	15,055	4,882	4,932	4,982	5,031	19,827
Interest expense	249	191	103	104	647	107	102	99	100	408	100	100	100	100	400
Other (income) expense	(9)	(7)	(17)	(9)	(42)	(7)	323	(4)	(15)	297	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	888	1,717	2,342	3,595	8,542	3,746	3,067	3,266	4,271	14,350	4,797	4,847	4,897	4,946	19,487
Income tax expense (benefit)	268	520	695	861	2,344	1,224	830	941	1,310	4,305	1,439	1,454	1,469	1,484	5,846
Net income (loss)	620	1,197	1,647	2,734	6,198	2,522	2,237	2,325	2,961	10,045	3,358	3,393	3,428	3,462	13,641
EPS	0.08	0.16	0.21	0.35	0.80	0.32	0.29	0.29	0.38	1.28	0.43	0.43	0.44	0.44	1.73
Shares Outstanding	7,713	7,706	7,733	7,775	7,722	7,855	7,844	7,863	7,863	7,856	7,863	7,863	7,863	7,863	7,863
Margin Analysis															
Gross margin	11.9%	15.9%	15.1%	21.8%	16.3%	23.8%	22.2%	20.9%	24.5%	22.9%	25.7%	25.9%	26.0%	26.1%	25.9%
SG&A expenses	7.0%	7.8%	5.8%	7.4%	7.0%	8.9%	8.4%	7.9%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
Operating margin	5.0%	8.1%	9.3%	14.4%	9.3%	14.9%	13.8%	13.0%	16.2%	14.5%	17.4%	17.6%	17.7%	17.9%	17.7%
Net margin	2.7%	5.1%	6.3%	10.6%	6.3%	9.8%	8.8%	9.0%	11.0%	9.7%	12.0%	12.1%	12.2%	12.3%	12.1%
Tax rate	30.2%	30.3%	29.7%	23.9%	27.4%	32.7%	27.1%	28.8%	30.7%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Year / Year Growth															
Total Revenues	7.8%	(5.3%)	6.5%	15.4%	5.8%	13.5%	8.1%	(1.3%)	4.8%	6.0%	8.8%	11.0%	9.0%	4.6%	8.3%
Net Income	(54.4%)	(44.9%)	14.2%	190.9%	4.8%	306.8%	86.9%	41.2%	8.3%	62.1%	33.1%	51.7%	47.4%	16.9%	35.8%
EPS	(54.3%)	(44.4%)	18.3%	189.6%	5.3%	299.4%	83.6%	36.2%	7.1%	59.3%	33.0%	51.3%	50.3%	16.9%	35.7%

Source: Company filings and Taglich Brothers' estimates

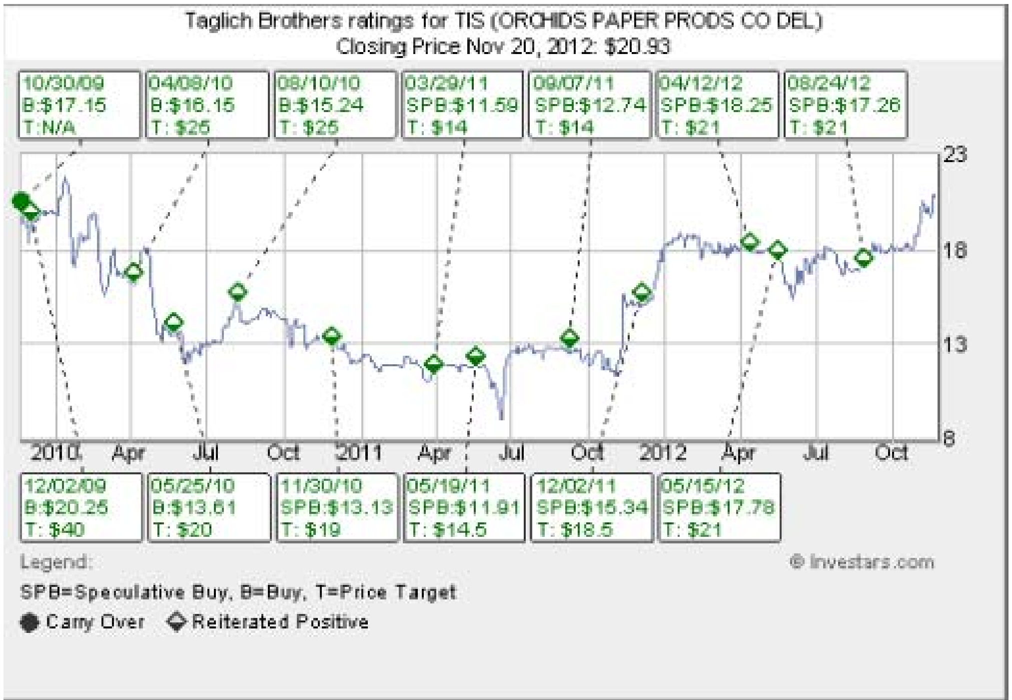
Orchids Paper Products Company

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

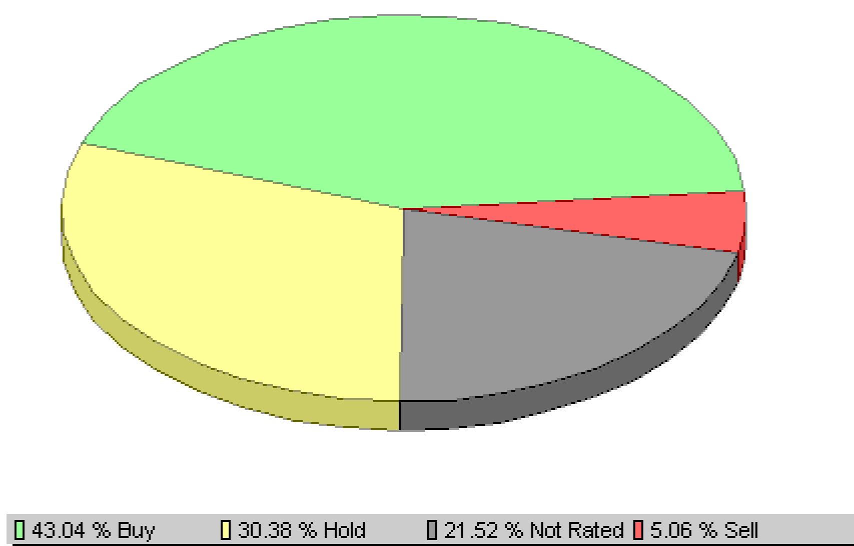
	2010A	2011A	9mos12A	2012E	2013E
Net income(loss)	5,914	6,198	7,084	10,045	13,641
Depreciation and amortization	5,725	7,132	5,611	6,905	6,760
Provision for doubful accounts	(34)	(30)	(20)	(30)	(30)
Deferred income taxes	3,519	2,359	109	299	300
Stock based compensation	562	290	318	425	450
Loss on disposal of property, plant and equipment	-	-	336	336	-
Changes in assets and liabilities					
Accounts receivable	629	(754)	(1,487)	(414)	(611)
Inventories	(26)	(216)	(1,288)	182	(305)
Prepaid expenses	(41)	8	(469)	(31)	(26)
Income taxes receivable	(3,952)	2,390	285	285	-
Other current assets	-	(338)	292	292	-
Accounts payable	1,201	(1,730)	483	(82)	137
Acrrued liabilities	(849)	346	511	156	230
Net Cash Provided by (Used in) Operations	**12,648**	**15,655**	**11,765**	**18,368**	**20,547**
Proceeds from the sale of investment securities	8,991	7,500	-	-	-
Purchase of investment securities	-	-	(3,004)	(3,004)	-
Purchase of property and equipment	(26,786)	(5,531)	(4,314)	(5,000)	(5,000)
Net Cash Provided by (Used in) Investing	**(17,795)**	**1,969**	**(7,318)**	**(8,004)**	**(5,000)**
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)	(864)	(4,500)	(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	384	500	500
Excess tax benefit of stock options exercised	-	15	24	30	30
Deferred debt issuance cost	(25)	(59)	-	-	-
Dividends paid	-	(3,753)	(4,533)	(6,446)	(7,583)
Net Cash Provided by (Used in) Financing	**4,057**	**(13,469)**	**(4,989)**	**(10,416)**	**(12,053)**
Net Change in Cash	**(1,090)**	**4,155**	**(542)**	**(52)**	**3,494**
Cash - Beginning of Period	**1,232**	**142**	**4,297**	**4,297**	**4,245**
Cash - End of Period	**142**	**4,297**	**3,755**	**4,245**	**7,739**
Cash Flow from Operations	12,648	15,655	11,765	18,368	20,547
Capital Expenditures	(26,786)	(5,531)	(4,314)	(5,000)	(5,000)
Free Cash Flow	(14,138)	10,124	7,451	13,368	15,547

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		
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 436,135 shares of TIS common stock (includes 338,744 shares of restricted stock). Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 419,254 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 162,900 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 8,087 shares of TIS common stock. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

All research issued by Taglich Brothers, Inc. is based on public information. Since April 2008, the company pays a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Dropping Coverage

We have discontinued research coverage due to acquisition of the company, termination of research services, non-payment for such services 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.