



TAGLICHBROTHERS

The Standard of Excellence in the Microcap Market

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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: Buy

John Nobile

November 25, 2008

TIS \$6.65 — (AMEX)

	<u>FY(2006)A</u>	<u>FY(2007)A</u>	<u>FY(2008)E</u>	<u>FY(2009)E</u>
Revenues (millions)	\$60.2	\$74.6	\$90.6	\$106.2
Earnings (loss) per share	\$0.11	\$0.40	\$0.76	\$1.40

52-Week range	\$9.85 – \$5.68	Fiscal year ends:	December
Shares outstanding <small>as of 11/7/08</small>	6.3 million	Revenue per share (TTM)	\$13.17
Approximate float	5.1 million	Price/Sales (TTM)	0.5X
Market capitalization	\$42 million	Price/Sales (FY2009)E	0.4X
Tangible book value/share	\$4.94	Price/Earnings (TTM)	11.5X
Price/tangible book value	1.3X	Price/Earnings (FY2009)E	4.8X

Headquartered in Pryor, Oklahoma, Orchids Paper Products manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer, or “at home,” market. The Company has focused its product design and manufacturing on the discount retail market, primarily the dollar store retailers, due to their consistent order patterns, limited number of stock keeping units offered and the growth being experienced in this channel of the retail market. (www.orchidspaper.com)

Key investment considerations:

We are upgrading our rating on Orchids Paper Products Company (AMEX: TIS) to Buy from Speculative Buy and increasing our twelve-month price target to \$15.00 per share (previously \$11.00) based on increased earnings estimates. The Company has managed to post impressive results despite the struggling economy while shares of TIS trade well off its highs.

On October 29, 2008, Orchids reported that third quarter net sales increased 21% to \$23.3 million from \$19.2 million and net income increased to \$1.4 million or \$0.22 per diluted share versus net income of \$1.1 million or \$0.18 per diluted share.

Management said that while the current economic and credit crisis has had profound effects on many industries, the Company’s current order backlog was strong and expectations are for the backlog to remain strong.

Our outlook has improved for the Company’s operations since our last report as Orchids has been successful in identifying and addressing issues that impaired production. On the third quarter conference call, Management guided for a 10% increase in higher margin converted tonnage being shipped in 2009 from current levels.

We are projecting Orchids’ revenue in fiscal 2008 to increase 21% to \$90.6 million and net income to increase 90% to \$4.9 million or \$0.76 per diluted share. We believe Orchids will generate \$9.9 million cash from operations in fiscal 2008. For fiscal 2009, we are projecting Orchids will generate revenue of \$106.2 million, net income of \$9.1 million or \$1.40 per diluted share, and cash from operations of \$14.1 million.

**Please view our disclaimer located on page 13.*

Business

In March 2004, Orchids Acquisition Group, Inc. acquired the Company for a price of \$21.6 million. 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 at \$8.00 per share (\$5.33 adjusted for a 3-for-2 stock split in July 2006) and began trading on the American Stock Exchange under the symbol TIS.

Headquartered in Pryor, Oklahoma, Orchids Paper Products manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer or “at home” market. The Company has focused its product design and manufacturing on the discount retail market, primarily the dollar store retailers, due to their consistent order patterns, limited number of stock keeping units (SKUs) offered and the growth being experienced in this channel of the retail market. While Orchids has customers located throughout the United States, it distributes most of its products within approximately 900 miles 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®. Revenue is derived pursuant to truck load purchase orders and is recognized when title passes to the customer. 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.

Market

As one would imagine, the US tissue market is a very large market. According to Tissue World Magazine, the US tissue market was almost a \$13 billion market in 2007. In October 2008, RISI (an information provider for the global forest products industry) reported that the United States remained the largest single market because of its continued growth in per capita consumption. RISI said that the North American tissue market was comprised of toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%) and other users, including sanitary (1%).

Although the overall tissue market in the US is projected to grow minimally over the next four years, by 2011, non-grocery retailers, like the dollar stores that Orchids sells to, are projected to take an additional 20%¹ of the market share away from traditional grocery retailers.

ACNielsen (the world's leading marketing information company) reported that paper products represent the second best selling items at dollar stores based on dollar sales.

During the past few years, dollar store expansion has occurred at a remarkable pace and this expansion shows no sign of slowing. Dollar stores’ consumer bases have grown due to higher fuel costs, which continue to impact the economy and consumer spending.

Higher income consumers are increasingly looking to dollar stores to save money as gas prices continue to grow. In fact, the oldest single-price retail chain in the United States, 99 Cents Only, boasts that its most popular store is in Beverly Hills, where the majority of consumers earn very high incomes.

1. Overview of the Retail Dollar Store Market in the United States, Opportunities for Canadian Agri-food Exporters, Government of Canada, July 2007

3rd Quarter Financial Results

For the third quarter ended September 30, 2008 versus the same period in 2007:

- Net sales increased 21% to \$23.3 million from \$19.2 million.
- Gross margins decreased to 16.3% from 16.8%.
- Selling, general and administrative (SG&A) expenses increased to \$1.6 million from \$1.3 million.
- Net income was \$1.4 million or \$0.22 per diluted share versus net income of \$1.1 million or \$0.18 per diluted share.

In comparison, Taglich Brothers' estimates called for third quarter net sales of \$22.4 million and net income of \$1.2 million or \$0.19 per diluted share.

Converted product sales increased to \$19.3 million from \$16.5 million while parent roll sales increased to \$4.0 million from \$2.7 million. The increase in converted product sales was primarily due to a 21% increase in the net selling price per ton which was slightly offset by lower tonnage shipped. The increase in parent roll sales was primarily due to a 27% increase in tonnage shipped and a 15% increase in selling prices. Total tons shipped increased to 13,837 from 13,390, while paper costs increased to approximately \$11.1 million from approximately \$10.0 million. The overall net selling price per ton increased to \$1,685 from \$1,435.

The decrease in gross margins was due to the effect of higher paper costs (\$799/ton vs. \$733/ton) and higher converting production costs. Paper production costs increased primarily due to a 19% increase in waste paper prices and a 34% increase in natural gas prices. Converting production costs increased primarily from a \$0.5 million increase in maintenance and repair costs and \$0.274 million related to the engagement of a productivity consultant.

The increase in SG&A expenses was primarily due to costs associated with additions to Orchids' senior management team.

Balance Sheet

As of September 30, 2008, the Company's cash balance was \$0.012 million. Orchids had working capital of \$4.4 million, long-term debt of \$23.4 million, current portion of long-term debt of \$2.7 million, and a tangible book value of \$4.94 per share. The Company generated approximately \$6.8 million cash from operations during the first nine months of fiscal 2008. Taglich Brothers defines cash flow as net income plus non-cash charges.

On November 5, 2008, the Company amended its credit agreement with its existing bank group with the following terms:

- an \$8.0 million revolving credit facility with a 3-year term (\$2.2 million outstanding at September 30, 2008);
- a \$10.0 million Term Loan A with a ten-year term, no principal repayments for the first 24 months and then will be amortized as if it had an 18-year life (\$10.0 million outstanding at September 30, 2008);
- a \$16.5 million Term Loan B with a four year-term and is being amortized as if it had a six-year life (\$13.2 million outstanding at September 30, 2008); and
- a \$4.0 million capital expenditures facility with a four-year term that will be amortized as if it had a five-year life (\$0 outstanding at September 30, 2008).

The Company's credit facilities will be used to fund an automation project in the Company's converting facility and to expand the Company's wastewater pre-treatment. Details of these projects are outlined below:

Automation project - The converting automation project will involve the purchase and installation of case packers, conveyors and case unitizing equipment, which will reduce the amount of manual labor required in the operation, and should be operational by the fourth quarter of 2008. Committed capital expenditures not yet paid for in connection with this project totaled approximately \$1.2 million at September 30, 2008.

Wastewater pre-treatment expansion - A new water discharge permit was issued effective August 1, 2007 which requires Orchids to expand its existing pre-treatment facility to reduce biological oxygen demand and total suspended solids from its effluent stream. Under the new permit, Orchids is required to complete the expansion and make operational its pre-treatment facility by August 1, 2009. The engineering phase has been completed and the project is expected to cost approximately \$4.3 million.

We believe that the Company's future cash from operations and current credit arrangement will be sufficient to fund the Company's operations for next twelve months.

Discussion

With the Company operating at approximately full capacity, we believe that any improvement in the bottom line will come from margin expansion. In this regard, Orchids has taken steps to improve its margins.

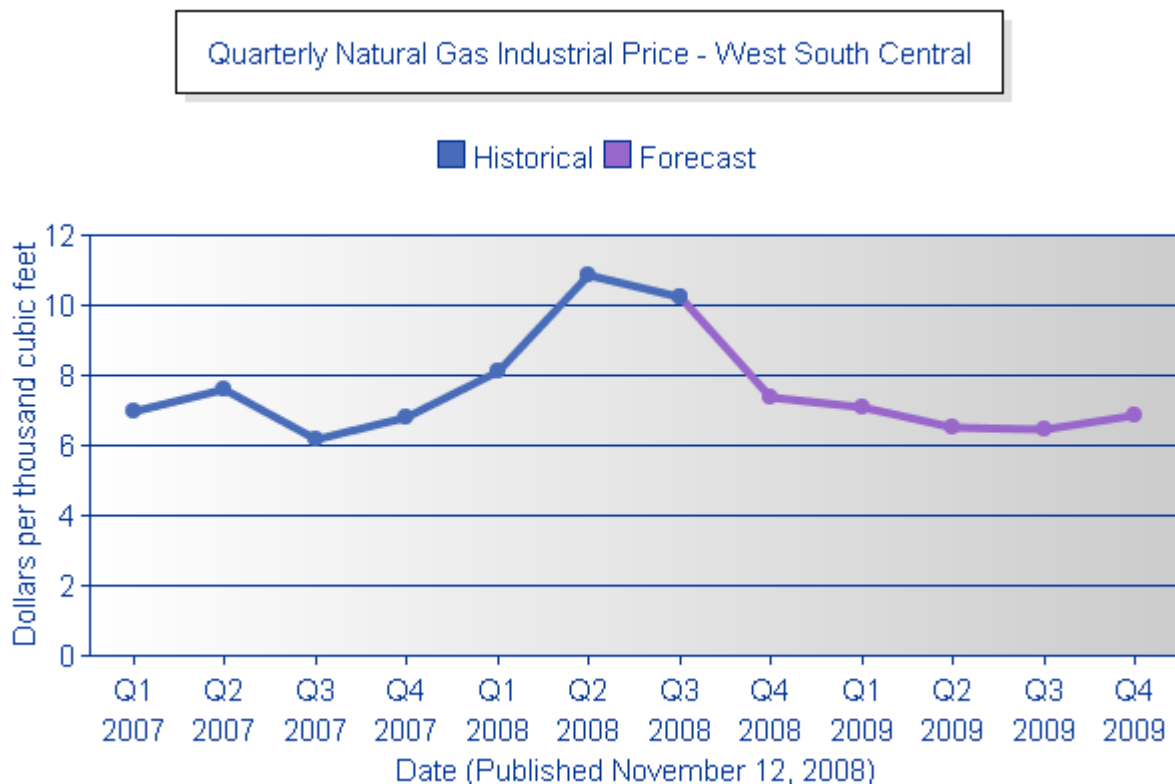
We believe the best way for the Company to improve its margins would be to increase the amount of converted product shipped as it normally has significantly higher margins than parent roll shipments. In its second quarter earnings release, Management said that during the second quarter, the Company began the process of price increases and product content reductions as well as maintaining its focus on continuous improvement in its converting operation. However, these benefits were mostly offset by higher costs, particularly for waste paper and energy (natural gas). Management said that its efforts will continue in this regard and expects to obtain additional benefits during the rest of the year.

In the third quarter of 2008, Orchids hired a productivity consultant to improve productivity in its converting operation. The productivity consultant's engagement, which ended in mid-September, included designing and implementing a management operating system and assisting the Company's Management team in implementing a new work schedule and work practices. The management operating system helped identify and confirm the root causes of issues which impaired production. The higher than normal maintenance and repair costs in the third quarter of 2008 primarily resulted from addressing those issues. Orchids expects its level of maintenance expenditures to decrease by approximately \$0.25 million in the fourth quarter of 2008 and by an additional \$0.07 million for a total reduction of \$0.32 million beginning in the first quarter of 2009.

When we ran a pro-forma on what we believe third quarter financial results would have been if the expected maintenance reductions would have occurred in the third quarter and excluding the non-recurring productivity expense, we believe that gross margins would have been approximately 18.8% and net income would have been approximately \$1.9 million or \$0.29 per diluted share versus reported gross margins of 16.3% and net income of \$1.4 million or \$0.22 per diluted share.

We believe the outlook for natural gas prices will be beneficial in forecasting gross margins for the Company. In October 2008, the Energy Information Administration (EIA) forecasted West South Central U.S. (includes Oklahoma) natural gas prices to decrease over the next 15 months after peaking in the second quarter of 2008 (see chart on next page).

The Company is obligated through March 2009 to purchase all of its natural gas requirements through a program established by its broker that utilizes a combination of fixed price contracts, options and spot purchases. Beginning in the latter part of the third quarter, prices for natural gas futures began to decrease. In response to this, the Company entered into a fixed price contract in late October 2008 with its broker for approximately 60% of its natural gas requirements at \$7.50 per MMBTU for the period from April 2009 through March 2010. The remaining 40% of the Company's requirements for the April 2009 through March 2010 time period will be purchased under the current program of a combination of fixed price contracts, options and spot purchases.



Source: Energy Information Administration

We believe the above forecasts support an improvement in gross margins going forward.

Management said during the third quarter conference call that the converting automation project (discussed earlier) is scheduled for completion in December 2008. The Company previously disclosed that this project should result in reduced cash costs of approximately \$2 million annually.

Management said that while the current economic and credit crisis has had profound effects on many industries, the Company's current order backlog was strong and expectations are for the backlog to remain strong. Management also said that while world-wide virgin pulp prices have seen significant decreases in recent months, the grades of waste paper Orchids uses to produce paper have not experienced price decreases as of the end of October 2008.

Projections

We are projecting Orchids' revenue in fiscal 2008 to increase 21% to \$90.6 million and net income to increase 90% to \$4.9 million or \$0.76 per diluted share. We believe Orchids will generate \$9.9 million cash from operations in fiscal 2008. Our previous projections called for fiscal 2008 revenue of \$87.5 million, cash flow of \$9.1 million, and net income of \$4.1 million or \$0.63 per diluted share. The increase in our estimates is primarily due to the better than expected results in the third quarter.

Orchids Paper Products Company

Our fiscal 2008 estimates are made with the following assumptions:

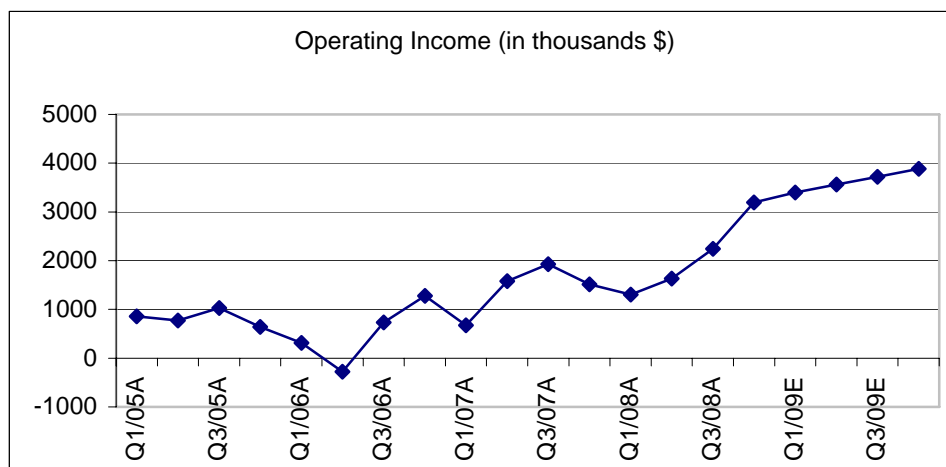
- Orchids operating at 100% manufacturing capacity
- Increased selling prices due to a greater percentage of converted product being shipped
- Gross margins firming to 15.9% for the reasons discussed earlier
- SG&A expenses increasing on an absolute basis but decreasing as a percentage of sales as the Company focuses on reducing operating costs
- An effective tax rate of 30% (third quarter conference call guidance)

We are projecting Orchids' revenue in fiscal 2009 to increase to \$106.2 million and net income to increase to \$9.1 million or \$1.40 per diluted share. We believe Orchids will generate \$14.1 million cash from operations in fiscal 2009. Our previous projections called for fiscal 2009 revenue of \$88.8 million, cash flow of \$10.6 million, and net income of \$5.6 million or \$0.85 per diluted share. The increase in our estimates is primarily due to guidance calling for a 10% increase in converted tonnage being shipped from current levels.

Our fiscal 2009 estimates are made with the following assumptions:

- Orchids operating at 100% manufacturing capacity
- Increased selling prices due to a greater percentage of converted product being shipped
- Gross margins firming to 19.9% also due to a greater percentage of converted product being shipped and a full year of contribution coming from a reduction in cost of sales related to automating the converting process
- SG&A expenses increasing on an absolute basis but decreasing as a percentage of sales as the Company continues to focus on reducing operating costs
- An effective tax rate of 32% (third quarter conference call guidance)

Listed below is a chart showing Orchids' growth in operating income throughout the past few years along with our estimates for 2008 and 2009:



Source: Company filings and Taglich Brothers' estimates

Risks

Competition

Orchids faces intense competition and if it cannot successfully compete in the marketplace, its business, financial condition and operating results may be materially adversely affected. The Company's ability to compete successfully depends upon a variety of factors, including:

- aggressive pricing by competitors, which may force Orchids to decrease prices in order to maintain market share;
- the Company's ability to improve plant efficiencies and operating rates and lower manufacturing costs;
- the availability, quality and cost of raw materials, particularly recycled waste paper and labor; and
- the cost of energy.

Customer concentration

A substantial percentage of Orchids' product revenues are attributable to four significant customers. During the three months ended September 30, 2008, sales to the four significant customers accounted for approximately 67% of the Company's total sales. The Company expects that sales to a limited number of customers will continue to account for a substantial portion of its revenues for the foreseeable future. Sales to these customers are made pursuant to purchase orders and not supply agreements. Orchids may not be able to keep its key customers or these customers may cancel purchase orders or reschedule or decrease their level of purchases from the Company. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Significant indebtedness

Orchids has significant indebtedness which limits its free cash flow and subjects the Company to restrictive covenants relating to the operation of its business. At September 30, 2008, Orchids had \$26.1 million of indebtedness. Operating with this amount of leverage requires the Company to direct a significant portion of its cash flow from operations to make payments on its debt, which reduces the funds otherwise available for operations, capital expenditures, future business opportunities and other purposes.

Cost of energy

The availability of and prices for energy will significantly impact Orchids' business. All of the energy necessary to produce its paper products is purchased on the open market and, as a result, the price and other terms of those purchases are subject to change based on factors such as worldwide supply and demand and government regulation.

Orchids relies primarily on natural gas and electric energy. In particular, natural gas prices are highly volatile. The Company's consumption of both natural gas and electricity increased substantially following the start-up of its new paper machine in mid-2006. If energy costs increase, Orchids' cost of sales will increase, and its operating results may be materially adversely affected. Furthermore, the Company may not be able to pass increased energy costs on to its customers if the market does not allow it to raise the prices of its finished products.

The parent roll market is a commodity market and subject to fluctuations in demand and pricing

Following the start-up of Orchids' new paper machine in July 2006, its parent roll production exceeded the requirements of its converting operation, which excess tonnage is sold as parent rolls. In addition, in the second quarter of 2007, due to relatively high parent roll prices, Orchids began running all of its older paper machines on a full-time basis, thereby increasing the amount of excess paper. The demand for parent rolls has been relatively high compared to supply for several years, however fluctuations in demand, primarily in the away-from-home market, can affect the supply-demand balance. A significant reduction in demand can result in an over-supply situation if parent roll producers do not adjust capacity, which could negatively affect the market price for parent rolls. A significant reduction in parent roll selling prices could reduce revenues and decrease profits and could cause a shut down of some of Orchids' excess paper making capacity.

Failure to purchase the contracted quantity of natural gas may result in financial exposure

In October 2008, Orchids entered into a contract to purchase 334,000 MMBTU natural gas requirements at \$7.50 per MMBTU for the period from April 2009 through March 2010. This represents approximately 60% of Orchids' natural gas requirements based on usage rates for 2009. A significant interruption in parent roll production due to tornado, fire, or other natural disaster, adverse market conditions or mechanical failure could reduce the Company's natural gas requirements to a level below that of its contracted amount. If this situation occurs and the market price for natural gas at that time is less than the contracted price, Orchids could be required under the terms of its agreement to reimburse its gas supplier for their lost revenue on the pricing difference on the amount of natural gas purchased under the contract amount.

Interest rate exposure

Orchids' market risks relate primarily to changes in interest rates. The Company's revolving line of credit and term loans carry a variable interest rate that is tied to market indices and, therefore, statements of income and cash flows will be exposed to changes in interest rates. As of September 30, 2008, Orchids had floating-rate borrowings of \$25.4 million. Outstanding balances under its line of credit and term loans bear interest at the prime rate or LIBOR, plus a margin based upon the debt service coverage ratio. Based on the current borrowings, a 100 basis point increase in interest rates would result in a \$254,000 increase to annual interest expense.

Dependence on Management

Orchids is highly dependent on the principal members of its Management, in particular Robert Snyder, President and Chief Executive Officer, and Keith Schroeder, Chief Financial Officer. The Company has entered into employment agreements with Robert Snyder and Keith Schroeder that expire in 2012 and 2009, respectively. Mr. Snyder was recently appointed President and Chief Executive Officer following the retirement of Michael Sage in July 2007. While Mr. Snyder has extensive management experience in the paper industry, this is his first appointment as Chief Executive Officer and he has no prior experience at the Company. If Orchids is unable to retain Mr. Snyder and Mr. Schroeder or to attract and retain other qualified personnel, its business and ability to compete could be significantly harmed.

Labor interruptions

All of Orchids' hourly paid employees are represented by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Service Workers International Union. The collective bargaining agreement with Local 5-930, which represents the paper mill workers, will expire in February 2011, and the collective bargaining agreement with Local 5-1480, which represents the converting facility workers, will expire in June 2010.

Negotiations of new collective bargaining agreements may result in significant increases in the cost of labor or could breakdown and result in a strike or other disruption of our operations. If any of the preceding were to occur, it could impair the Company's ability to manufacture products and result in increased costs and/or decreased operating results. In addition, some of Orchids' key customers and suppliers are also unionized. Disruption in their labor relations could also have an adverse effect on Orchids' business.

Substantial capital requirements

Orchids' operations require substantial capital. For example, under new environmental standards, the Company is required to build a water treatment facility costing approximately \$4.3 million to reduce biological oxygen demand and total suspended solids from its discharge water. In addition, Orchids plans to install equipment that automates certain portions of its converting plant processes at a cost of \$4.75 million in 2008. If Orchids' capital resources are inadequate to provide for its operating needs, capital expenditures and other cash requirements, this shortfall could have a material adverse effect on its business and liquidity.

Operating at maximum capacity

We believe that Orchids' operations are near maximum capacity. As such, we believe that any improvement to the bottom line will have to come from improvement in margins and efficiencies. One way the Company can improve its margins is to sell a greater percentage of converted products. If the Company is unsuccessful at increasing its percentage of converted product sales and/or reducing manufacturing costs, margins could suffer resulting in no improvement to the bottom line.

Liquidity Risk

Shares of TIS have risks common to those of the microcap segment of the market. Often these risks 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 and can lead to large spreads and high volatility in stock price. Orchids has 5.1 million shares in the float with an average daily volume of approximately 2,000 shares.

Miscellaneous Risks

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Conclusion and Valuation

We are upgrading our rating on Orchids Paper Products Company (AMEX: TIS) to Buy from Speculative Buy. The Company has managed to post impressive results despite the struggling economy while shares of TIS trade well off its highs.

Management said that while the current economic and credit crisis has had profound effects on many industries, the Company's current order backlog was strong and expectations are for the backlog to remain strong. Our outlook has improved for the Company's operations since our last report as Orchids has been successful in identifying and addressing issues that impaired production.

We believe the best way for the Company to improve its margins would be to increase the amount of converted product shipped as it normally has significantly higher margins than parent roll shipments. On the third quarter conference call, Management guided for a 10% increase in converted tonnage being shipped in 2009 from current levels.

Orchids Paper Products Company

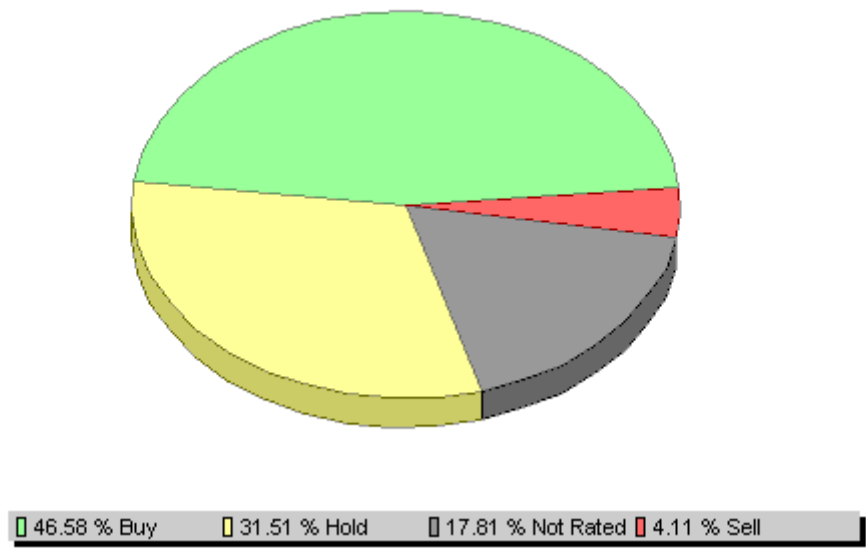
We are projecting Orchids' revenue in fiscal 2008 to increase 21% to \$90.6 million and net income to increase 90% to \$4.9 million or \$0.76 per diluted share. We believe Orchids will generate \$9.9 million cash from operations in fiscal 2008. For fiscal 2009, we are projecting Orchids will generate revenue of \$106.2 million, net income of \$9.1 million or \$1.40 per diluted share, and cash from operations of \$14.1 million.

In order to get an appropriate multiple to apply to Orchids' earnings, we looked at the Company's historic earnings multiple (20X), its current multiple (12X), and industry multiples (10X for the paper products industry; 16X for the discount store industry). With these inputs and given the current market conditions, we believe that a multiple of 13X earnings is reasonable to apply to Orchids' earnings. Applying a multiple of 13X to our fiscal 2009 fully taxed (40% tax rate) earnings estimate of \$1.23 per diluted share (\$1.40 per diluted share partially taxed), we arrive at a fifteen-month price target of approximately \$16.00 per share. Discounting to a twelve-month value gives us a **twelve-month price target of approximately \$15.00 per share**. We derived a 10% discount factor using the Capital Asset Pricing Model with a beta of 1.25 and a risk free rate of approximately 4%.

Orchids Paper Products Company



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months			
Rating	#	%	
Buy	0	0.00%	
Hold	1	7.14%	
Sell	0	0.00%	
Not Rated	0	0.00%	

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

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.

Public companies mentioned in this report:

99 Cents Only (NYSE: NDN)

* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research.

As of the date of this report, Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 414,141 shares of TIS common stock and 52,575 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 382,642 shares of TIS common stock and 52,575 warrants. Richard Oh, Director of Research and Managing Director of Taglich Brothers, Inc., owns 8,233 shares of TIS common stock and 10,000 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 103,518 shares of TIS common stock, 47,305 warrants, and 7,500 options. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 18,607 shares of TIS common stock and 39,900 warrants. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the Company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

All research issued by Taglich Brothers, Inc. is based on public information. 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.

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.

Taglich Brothers, Inc.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands \$)

	<u>December 31, 2006</u>	<u>December 31, 2007</u>	<u>September 30, 2008</u>
Assets			
Current assets:			
Cash	\$ 3	\$ 3	\$ 12
Accounts receivable	5,089	5,527	8,048
Inventories	4,379	4,874	5,960
Restricted certificate of deposit	1,500	-	-
Income taxes receivable	1,242	24	-
Prepaid expenses	306	381	602
Deferred income taxes	<u>346</u>	<u>516</u>	<u>516</u>
Total current assets	12,865	11,325	15,138
Property, plant and equipment	58,039	56,856	58,706
Deferred debt issuance costs	<u>124</u>	<u>122</u>	<u>97</u>
Total Assets	<u>\$ 71,028</u>	<u>\$ 68,303</u>	<u>\$ 73,941</u>
Liabilities & stockholders' equity			
Current liabilities:			
Accounts payable	\$ 3,772	\$ 4,760	\$ 5,034
Accrued liabilities	1,805	2,460	2,950
Current portion of long-term debt	<u>2,263</u>	<u>2,391</u>	<u>2,728</u>
Total current liabilities	7,840	9,611	10,712
Long-term debt	31,575	23,264	23,379
Deferred income taxes	<u>6,909</u>	<u>7,386</u>	<u>8,613</u>
Total liabilities	<u>46,324</u>	<u>40,261</u>	<u>42,704</u>
Total stockholders' equity	<u>24,704</u>	<u>28,042</u>	<u>31,237</u>
Total liabilities & stockholders' equity	<u>\$ 71,028</u>	<u>\$ 68,303</u>	<u>\$ 73,941</u>

Orchids Paper Products Company

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

	<u>FY(12/05)A</u>	<u>FY(12/06)A</u>	<u>FY(12/07)A</u>	<u>FY(12/08)E</u>	<u>FY(12/09)E</u>
Net sales	\$ 57,700	\$ 60,190	\$ 74,648	\$ 90,602	\$ 106,200
Cost of sales	<u>50,385</u>	<u>53,988</u>	<u>63,717</u>	<u>76,230</u>	<u>85,085</u>
Gross profit	7,315	6,202	10,931	14,372	21,115
Selling, general and administrative expenses	<u>4,013</u>	<u>4,153</u>	<u>5,234</u>	<u>6,002</u>	<u>6,550</u>
Operating income (loss)	3,302	2,049	5,697	8,370	14,565
Interest expense	1,213	1,980	2,828	1,341	1,200
Other (income) expense	<u>(102)</u>	<u>(99)</u>	<u>(36)</u>	<u>(9)</u>	<u>-</u>
Income (loss) before taxes	2,191	168	2,905	7,038	13,365
Income tax expense (benefit)	<u>799</u>	<u>(564)</u>	<u>307</u>	<u>2,111</u>	<u>4,276</u>
Net income (loss)	<u>\$ 1,392</u>	<u>\$ 732</u>	<u>\$ 2,598</u>	<u>\$ 4,927</u>	<u>\$ 9,089</u>
Basic EPS	\$ 0.31	\$ 0.12	\$ 0.42	\$ 0.78	\$ 1.44
Diluted EPS	\$ 0.30	\$ 0.11	\$ 0.40	\$ 0.76	\$ 1.40
Basic Shares Outstanding	4,453	6,234	6,256	6,329	6,330
Diluted Shares Outstanding	4,594	6,558	6,465	6,520	6,500
 <u>Margin Analysis</u>					
Gross margin	12.68%	10.30%	14.64%	15.86%	19.88%
Selling, general and administrative	6.95%	6.90%	7.01%	6.62%	6.17%
Operating margin	5.72%	3.40%	7.63%	9.24%	13.71%
Net margin	2.41%	1.22%	3.48%	5.44%	8.56%
 <u>Year / Year Growth</u>					
Total Revenues		4.32%	24.02%	21.37%	17.22%
Net Income		-47.41%	254.92%	89.65%	84.47%
EPS		-63.16%	260.02%	88.05%	85.04%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ended December 31, 2007

(in thousands \$)

	<u>Q1(3/07)A</u>	<u>Q2(6/07)A</u>	<u>Q3(9/07)A</u>	<u>Q4(12/07)A</u>	<u>FY(12/07)A</u>
Net sales	\$ 16,637	\$ 18,515	\$ 19,218	\$ 20,278	\$ 74,648
Cost of sales	14,905	15,762	15,997	17,053	63,717
Gross profit	1,732	2,753	3,221	3,225	10,931
Selling, general and administrative expenses	1,059	1,170	1,296	1,709	5,234
Operating income (loss)	673	1,583	1,925	1,516	5,697
Interest expense	873	708	635	612	2,828
Other (income) expense	(20)	(7)	(2)	(7)	(36)
Income (loss) before taxes	(180)	882	1,292	911	2,905
Income tax expense (benefit)	(49)	139	156	61	307
Net income (loss)	\$ (131)	\$ 743	\$ 1,136	\$ 850	\$ 2,598
Basic EPS	\$ (0.02)	\$ 0.12	\$ 0.18	\$ 0.14	\$ 0.42
Diluted EPS	\$ (0.02)	\$ 0.12	\$ 0.18	\$ 0.13	\$ 0.40
Basic Shares Outstanding	6,234	6,234	6,234	6,320	6,256
Diluted Shares Outstanding	6,234	6,344	6,421	6,562	6,465
 <u>Margin Analysis</u>					
Gross margin	10.41%	14.87%	16.76%	15.90%	14.64%
Selling, general and administrative	6.37%	6.32%	6.74%	8.43%	7.01%
Operating margin	4.05%	8.55%	10.02%	7.48%	7.63%
Net margin	-0.79%	4.01%	5.91%	4.19%	3.48%
 <u>Year / Year Growth</u>					
Total Revenues	18.00%	35.39%	26.82%	17.47%	24.02%
Net Income	-171.98%	353.58%	852.32%	-14.49%	254.92%
EPS	-174.78%	349.19%	830.41%	-14.54%	260.02%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ending December 31, 2008

(in thousands \$)

	<u>Q1(3/08)A</u>	<u>Q2(6/08)A</u>	<u>Q3(9/08)A</u>	<u>Q4(12/08)E</u>	<u>FY(12/08)E</u>
Net sales	\$ 20,275	\$ 22,315	\$ 23,312	\$ 24,700	\$ 90,602
Cost of sales	<u>17,586</u>	<u>19,193</u>	<u>19,518</u>	<u>19,933</u>	<u>76,230</u>
Gross profit	2,689	3,122	3,794	4,767	14,372
Selling, general and administrative expenses	<u>1,385</u>	<u>1,491</u>	<u>1,551</u>	<u>1,575</u>	<u>6,002</u>
Operating income (loss)	1,304	1,631	2,243	3,192	8,370
Interest expense	411	320	310	300	1,341
Other (income) expense	<u>(1)</u>	<u>(5)</u>	<u>(3)</u>	<u>-</u>	<u>(9)</u>
Income (loss) before taxes	894	1,316	1,936	2,892	7,038
Income tax expense (benefit)	<u>283</u>	<u>429</u>	<u>513</u>	<u>886</u>	<u>2,111</u>
Net income (loss)	\$ 611	\$ 887	\$ 1,423	\$ 2,006	\$ 4,927
Basic EPS	\$ 0.10	\$ 0.14	\$ 0.22	\$ 0.32	\$ 0.78
Diluted EPS	\$ 0.09	\$ 0.14	\$ 0.22	\$ 0.31	\$ 0.76
Basic Shares Outstanding	6,327	6,329	6,329	6,330	6,329
Diluted Shares Outstanding	6,554	6,527	6,500	6,500	6,520
 <u>Margin Analysis</u>					
Gross margin	13.26%	13.99%	16.27%	19.30%	15.86%
Selling, general and administrative	6.83%	6.68%	6.65%	6.38%	6.62%
Operating margin	6.43%	7.31%	9.62%	12.92%	9.24%
Net margin	3.01%	3.97%	6.10%	8.12%	5.44%
 <u>Year / Year Growth</u>					
Total Revenues	21.87%	20.52%	21.30%	21.81%	21.37%
Net Income	566.41%	19.38%	25.26%	136.00%	89.65%
EPS	543.64%	16.03%	23.74%	138.25%	88.04%

Orchids Paper Products Company

Quarterly Income Statement for the Fiscal Year Ending December 31, 2009

(in thousands \$)

	<u>Q1(3/09)E</u>	<u>Q2(6/09)E</u>	<u>Q3(9/09)E</u>	<u>Q4(12/09)E</u>	<u>FY(12/09)E</u>
Net sales	\$ 25,500	\$ 26,200	\$ 26,900	\$ 27,600	\$ 106,200
Cost of sales	20,502	21,015	21,528	22,040	85,085
Gross profit	4,998	5,185	5,372	5,560	21,115
Selling, general and administrative expenses	1,600	1,625	1,650	1,675	6,550
Operating income (loss)	3,398	3,560	3,722	3,885	14,565
Interest expense	300	300	300	300	1,200
Other (income) expense	-	-	-	-	-
Income (loss) before taxes	3,098	3,260	3,422	3,585	13,365
Income tax expense (benefit)	991	1,043	1,095	1,147	4,276
Net income (loss)	\$ 2,107	\$ 2,217	\$ 2,327	\$ 2,438	\$ 9,089
Basic EPS	\$ 0.33	\$ 0.35	\$ 0.37	\$ 0.39	\$ 1.44
Diluted EPS	\$ 0.32	\$ 0.34	\$ 0.36	\$ 0.38	\$ 1.40
Basic Shares Outstanding	6,330	6,330	6,330	6,330	6,330
Diluted Shares Outstanding	6,500	6,500	6,500	6,500	6,500
 <u>Margin Analysis</u>					
Gross margin	19.60%	19.79%	19.97%	20.14%	19.88%
Selling, general and administrative	6.27%	6.20%	6.13%	6.07%	6.17%
Operating margin	13.33%	13.59%	13.84%	14.08%	13.71%
Net margin	8.26%	8.46%	8.65%	8.83%	8.56%
 <u>Year / Year Growth</u>					
Total Revenues	25.77%	17.41%	15.39%	11.74%	17.22%
Net Income	-244.84%	149.94%	63.53%	21.54%	84.47%
EPS	-247.71%	150.98%	64.28%	22.10%	85.47%

Orchids Paper Products Company

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

	FY2006	FY2007	9mos2008
<i>Cash Flows from Operating Activities</i>			
Net income(loss)	\$ 732	\$ 2,598	\$ 2,921
Depreciation and amortization	2,472	3,222	2,334
Provision for doubtful accounts	(19)	-	46
Deferred income taxes	483	307	1,227
Stock based compensation	260	402	259
Foreign currency transaction gain (loss)	35	-	-
Unrealized gain (loss) on foreign exchange contracts	(74)	-	-
<i>Changes in assets and liabilities</i>			
Accounts receivable	(890)	(438)	(2,568)
Inventories	41	(495)	(1,085)
Prepaid expenses	152	(75)	(221)
Income taxes receivable	(1,148)	1,218	24
Accounts payable	895	988	274
Accrued liabilities	(332)	655	490
Net Cash Provided by (Used in) Operations	2,607	8,382	3,701
<i>Cash Flows from Investing Activities</i>			
Proceeds from the sale of securities and restricted CD	-	1,500	-
Purchase of property and equipment	(18,133)	(1,818)	(4,159)
Net Cash Provided by (Used in) Investing	(18,133)	(318)	(4,159)
<i>Cash Flows from Financing Activities</i>			
Borrowings on long-term debt	15,000	26,500	-
Retirement of borrowings on long-term debt	-	(25,866)	-
Principal payments on long-term debt	(1,586)	(2,472)	(1,668)
Retirement of subordinated debentures	-	(2,150)	-
Net borrowings (repayments) on revolving credit line	1,767	(4,270)	2,120
Purchase of common stock by former CEO	-	743	-
Purchase by the Company of common stock from former CEO	-	(405)	-
Proceeds from the exercise of warrants attached to debentures	-	-	15
Deferred debt issuance cost	(30)	(144)	-
Net Cash Provided by (Used in) Financing	15,151	(8,064)	467
Net Change in Cash	(375)	-	9
Cash - Beginning of Period	378	3	3
Cash - End of Period	\$ 3	\$ 3	\$ 12