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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 30, 2010

TIS $13.13 — (NYSE AMEX)

	2008A	2009A	2010E	2011E
Revenues (millions)	$90.2	$96.0	$94.7	$102.5
Earnings per share	$0.79	$1.89	$0.83	$1.27

52-Week range	$11.85 – $22.10	Fiscal year ends:	December
Shares outstanding as of 11/1/10	7.5 million	Revenue per share (TTM)	$12.08
Approximate float	5.6 million	Price/Sales (TTM)	1.1X
Market capitalization	$98 million	Price/Sales (FY2011)E	1.0X
Tangible book value/share	$9.16	Price/Earnings (TTM)	12.5X
Price/tangible book value	1.4X	Price/Earnings (FY2011)E	10.3X

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, due to their consistent order patterns, limited number of stock keeping units offered and the growth potential in this channel of the retail market. (www.orchidspaper.com)

Key investment considerations:

We are lowering our rating for Orchids Paper Products (NYSE AMEX: TIS) to Speculative Buy from Buy and reducing our twelve-month price target to $19.00 per share from $25.00 primarily due to a reduction in earnings forecasts stemming from competitive pressure.

The new converting line should enable Orchids to convert almost all (54,000 tons) of its current parent roll capacity into finished product. Sales should increase to both dollar stores and grocery stores with the addition of a higher quality product and when combined with a full year of reduced warehousing costs, should result in gross margin improvement.

Orchids' new warehouse and expanded converting line started operating in June 2010. The new converting line is capable of producing both bathroom tissue and towel products with various packaging options, enhanced graphics and embossing thereby facilitating penetration of the grocery store market.

We project 2010 revenue of $94.7 million and EPS of $0.83 per diluted share. We decreased our estimates from 2010 revenue of $97.7 million and EPS $1.16 primarily to reflect Q3 results and a reduction in Q4 forecasts due to the increased competitive pressure in Orchids' primary market.

We project a 30% rise in sales of higher margin converted products in 2011, resulting in revenue of $102.5 million and EPS of $1.27. We previously projected revenue of $116.0 million and EPS of $1.76. The decrease in our estimates is based on product placement delays and a highly competitive market.

Orchids reported Q3/10 sales were relatively flat at $24.5 million. Q3/10 EPS decreased to $0.18 from $0.52 in Q3/09. We projected Q3/10 sales of $25.5 million and EPS of $0.33.

Please view our disclosures on pages 14 - 16.

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Recommendation and Valuation

We are lowering our rating for Orchids Paper Products to **Speculative Buy** from Buy and reducing our twelve-month price target to $19.00 per share from $25.00 primarily due to the effect that competitive pressures are having on operating results.

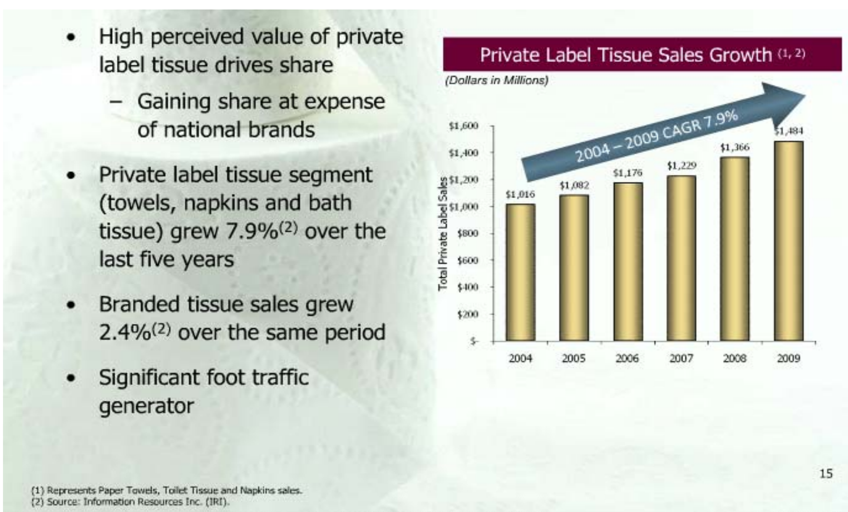
The company's multiple has averaged only 9X TTM earnings over the last two years but is now 13X trailing earnings. We believe the stock's multiple will continue to expand to its historic average (15X earnings) as the company's higher margin converted product sales start to increase and the balance sheet strengthens. Applying a multiple of 15X to our earnings per share estimate of $1.27 for 2011 gives us a **price target of approximately $19.00 per share**.

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.

From 2004 to 2009, private label tissue sales have grown at a compound annual growth rate of almost 8% while branded tissue products have only grown at a 2.4% rate.



Source: Orchids Paper Products

Outlook

Orchids’ new warehouse and expanded converting line were completed and started operating at the end of June 2010. The new converting line, which has a practical capacity of four million cases per year, is capable of producing both bathroom tissue and towel products. It is also capable of various packaging options and enhanced graphics and embossing, product features that will facilitate penetration of the grocery store market.

The new converting line’s capacity of four million cases per year equates to approximately 26,000 additional tons of converted product. Orchid’s total converted capacity with the new line should be approximately 66,000 tons annually. This means that at full capacity, the company would have to purchase approximately 10,000 parent rolls in the outside market to augment its current 56,000 ton parent roll capacity.

The additional converting capacity will support a roughly 60% increase in annual production over what has historically been produced (approximately 40,000 – 42,000 tons annually). We believe that the new converting line’s ability to produce a better quality product will enable the company to increase sales to both dollar stores and grocery stores.

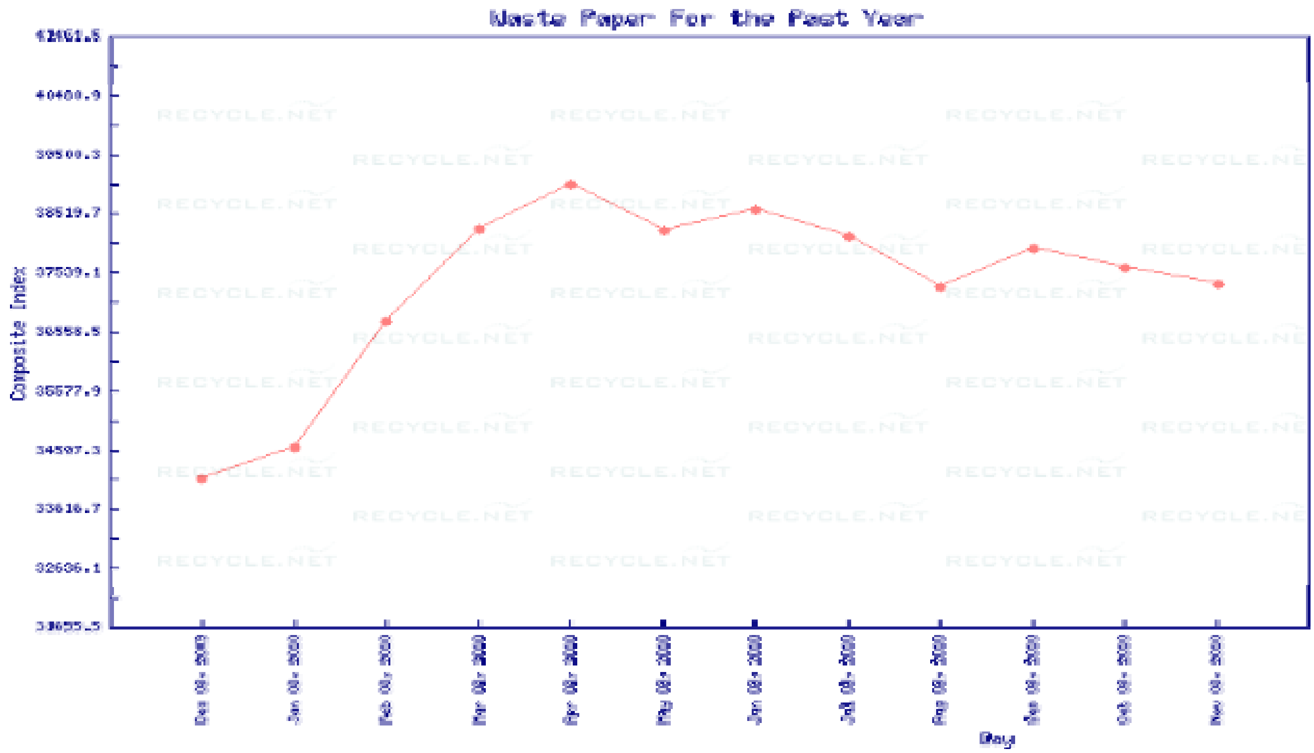
Higher quality product should improve penetration of the dollar store sector. However, this is not likely to occur until March 2011 given the time required to clear existing product from shelves. Lower tier products are not expected to displace higher tier products. We believe that Orchids offers a better quality lower tier product than direct competitors so we do not anticipate any significant decreases in Orchids’ existing lower tier business. We do not have any comparisons yet of Orchids’ higher tier products with that of competitors.

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.

Despite Orchids’ current cost competitive advantage, new competitors have moved into Orchids’ operating region. In 2009 Pacific Paper added a new converting plant in Memphis, Tennessee and Cellu Tissue (NYSE: CLU) opened a converting plant in Oklahoma City, Oklahoma in 2010. Both plants are in Orchids’ focused 500-mile sales area. The increased presence of competition in the company’s focused region has reduced some of its competitive cost advantages and lowered margins.

Judging by a rough estimate of the size of Orchids’ primary market (over 200,000 tons of converted products consumed annually based on population), we believe Orchids has the potential to eventually sell its full 60% increase in capacity. However, until we see the effect that new competition is having on Orchids’ ability to price and sell products in its cost competitive area, we are projecting operating results based on a 30% increase in converted production (1/2 of new converting line’s capacity). This equates to Orchids converting almost all of its current parent roll capacity into finished product.

As noted in the third quarter financial results, significant increases in waste paper prices and aggressive pricing of competitors’ branded products have compressed Orchids’ margins. Although waste paper prices are higher than they were a year ago, they have been trending downward since April 2010. We believe a gradually improving economy will keep demand for waste paper high resulting in waste paper prices remaining near current high levels.



Source: Paper Fiber Network

We believe the current competitive situation Orchids is facing will impact prices in the near-term as both Orchids and Cellu Tissue compete for shelf space. However, due to the substantial shipping cost savings both companies offer by being in close proximity to their target markets, we see the competitive landscape easing to a degree in the long term as the market is large enough to absorb product from both manufacturers.

Market and Competition

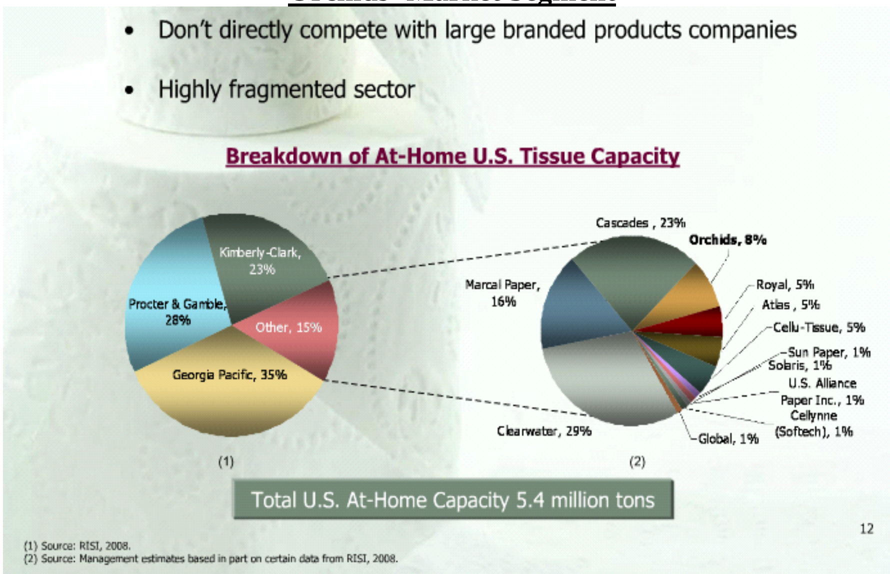
Industry research firm RISI breaks down the North American tissue market as follows: toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other (1%).

Based on the projected growth of the industry, we project a US tissue market of $10.4 billion in 2011. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 0.6% during the five years through 2015.

Dollar and variety stores, Orchids' primary target markets, realized sales of $50 billion in 2009. IBISWorld projects dollar and variety stores' growth averaging 2.7% annually from 2010 to 2015.

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, Georgia-Pacific's Muskogee, Oklahoma plant, Cascades' (OTC PK: CADNF) Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant are the only competitors' plants in this region. Cellu Tissue (NYSE: CLU) opened a converting facility in Oklahoma City, Oklahoma and started shipping product in 2010.

Orchids' Market Segment



Source: Orchids Paper Products

3rd Quarter and Nine Months Financial Results

Q3/10 sales of $24.5 million were relatively flat with Q3/09. Net income was $1.4 million or $0.18 per diluted share versus net income of $3.8 million or $0.52 per diluted share.

We estimated third quarter net sales of $25.5 million and net income of $2.6 million or $0.33 per diluted share. The EPS shortfall was due largely to lower margins than anticipated.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased to $19.7 million from $22.2 million while parent roll (bulk tissue paper) sales increased to $4.9 million from $2.4 million. Total tons shipped increased to 14,720 from 13,755, while paper costs increased to approximately $11.3 million from approximately $9.3 million. The overall net selling price per ton decreased to $1,666 from $1,785.

The decrease in converted product sales was due to a 10.8% decline in both tonnage shipped while the net selling price per ton was essentially flat. Converting product shipments were negatively affected by continued aggressive pricing by branded producers. Net sales of parent rolls were positively affected by a 66.6% increase in parent roll tonnage shipped and a 21.6% increase in the net selling price.

Gross margins decreased to 16.4% from 30.3% due to higher raw material costs and a tilt in product mix toward lower margin parent rolls.

Selling, general and administrative (SG&A) expenses decreased to $1.6 million from $1.8 million due to lower incentive bonuses. Interest expense increased to $249,000 from $174,000.

Pretax income decreased to $2.1 million from $5.5 million due mainly to the decrease in gross margins.

	Q3/2010	Q3/2009
Net sales	24,523	24,557
Cost of sales	20,494	17,128
Gross profit	4,029	7,429
SG&A expenses	1,649	1,772
Operating income (loss)	2,380	5,657
Interest expense	249	174
Other (income) expense	(24)	(5)
Income (loss) before taxes	2,155	5,488
Income tax expense (benefit)	713	1,673
Net income (loss)	1,442	3,815
Basic EPS	0.20	0.56
Diluted EPS	0.18	0.52
Basic Shares Outstanding	7,487	6,839
Diluted Shares Outstanding	7,762	7,304
Margin Analysis		
Gross margin	16.4%	30.3%
SG&A expenses	6.7%	7.2%
Operating margin	9.7%	23.0%
Net margin	5.9%	15.5%

Source: Company filings

For the nine-month period ended September 30, 2010, sales decreased 3% to $70.2 million. Net income was $5.0 million or $0.64 per diluted share versus net income of $10.4 million or $1.49 per diluted share.

Converted product sales decreased to $57.5 million from $65.8 million while parent roll sales increased to $12.8 million from $6.6 million. Total tons shipped increased to 42,513 from 38,481, while paper costs increased to approximately $32.4 million from approximately $25.8 million. The overall net selling price per ton decreased to $1,652 from $1,880.

The decrease in converted product sales resulted from an 8% decline in tonnage shipped and a 5% decrease in net selling prices. Converting product shipments were negatively affected by continued aggressive pricing by branded producers. The reduction in the net selling price per ton was primarily due to a change in product mix. Net sales of parent rolls were positively affected by a 94% increase in parent roll tonnage shipped and a 6% increase in net selling prices.

Gross margins decreased to 18.5% from 30.0%. The decrease in gross margins was due to higher raw material costs, lower converted product shipments due to increased competition, a higher percentage of parent roll sales, and higher depreciation expense.

Selling, general and administrative (SG&A) expenses decreased to $5.2 million from $5.7 million due to lower incentive bonuses and lower stock option expense. Operating margins decreased to 11.0% from 22.1% due mainly to the decrease in gross margins. Interest expense increased to $0.7 million from $0.5 million due to higher interest rates and higher debt levels.

Pretax income decreased to $7.1 million from $15.5 million due mainly to the decrease in gross margins.

	9mos2009	9mos2010
Net sales	72,328	70,248
Cost of sales	50,639	57,283
Gross profit	21,689	12,965
SG&A expenses	5,689	5,225
Operating income (loss)	16,000	7,740
Interest expense	468	675
Other (income) expense	(9)	(51)
Income (loss) before taxes	15,541	7,116
Income tax expense (benefit)	5,154	2,142
Net income (loss)	10,387	4,974
Basic EPS	1.58	0.67
Diluted EPS	1.49	0.64
Basic Shares Outstanding	6,562	7,456
Diluted Shares Outstanding	6,955	7,758
Margin Analysis		
Gross margin	30.0%	18.5%
SG&A expenses	7.9%	7.4%
Operating margin	22.1%	11.0%
Net margin	14.4%	7.1%

Source: Company filings

Liquidity

Orchids balance sheet ensures the company will have sufficient resources to meet its financial obligations in the coming year. Although Orchids' cash balance was only $6,000 as of September 30, 2010, short term investments totaled $9.5 million. Orchids has spent over $23 million during the year on capital expenditures, however, capital expenditures are projected to decrease substantially going forward as the bulk of the expenditures were for the recently completed new converting line and warehouse. Orchids has a current ratio of 1.5 and a debt/equity ratio of 0.4. This compares to the paper products industry's current ratio of 1.6 and debt/equity ratio of 1.6. As the company pays down debt, these ratios should improve.

Cash earnings of $11.5 million and a $2.7 million increase in taxes receivable offset by a $1.6 million increase in accounts payable resulted in $10.5 million cash from operations in the first nine months of 2010.

Capital equipment projects totaling $23.4 million and $9.0 million proceeds from the sale of investment securities resulted in $14.4 million cash used in investing activities.

Construction loans of $5.2 million and principal payments on long-term debt of $2.8 million resulted in $2.6 million cash from financing activities. Cash from operations of $10.5 million, $14.4 million cash used in investing activities, and $2.6 million cash provided by financing activities reduced cash by $1.2 million to $6,000 as of September 30, 2010.

Orchids has total debt of $25.9 million of which $8.8 million is due in less than one year. All loans have an interest rate of LIBOR plus 200 to 450 basis points (based on the ratio of funded debt to EBITDA less income tax paid) with a floor of 3.5%.

On June 1, 2010, Orchids amended its credit facility to increase the annual unfunded capital expenditures limit for the fiscal year ended December 31, 2010 from $11.0 million to $13.0 million to cover the cost of expanding the capacity of the wastewater treatment facility. The amendment also removes the restriction on the payment of dividends under certain circumstances, including dividends payable solely in additional shares of the company's common stock and cash dividends not exceeding $8.0 million in the aggregate in any fiscal year.

Other details of the amended credit arrangement include eliminating the requirement to maintain a debt service coverage ratio, adding a requirement to maintain a fixed charge coverage ratio of not less than 1.25 to 1.00, commencing with the fiscal quarter ending June 30, 2010, and adding a quarterly tangible net worth covenant which required the maintenance of a tangible net worth of not less than the sum of (i) $50.0 million, plus (ii) 50% of the company's net income, plus (iii) 100% of the net proceeds from any offering of equity securities after December 31, 2009

Projections

We project 2010 revenue of $94.7 million and net income of $6.4 million or $0.83 per diluted share. We previously projected 2010 revenue of $97.7 million and net income of $9.0 million or $1.16 per diluted share. The decrease in our estimates reflects the increased competitive pressure in Orchids' primary market. Aggressive promotional pricing by branded producers has taken a toll on Q3/10 results and the increased presence of competition in the company's focused region has reduced some of its competitive cost advantages and lowered margins.

Our projections are made on the basis that waste paper prices will stay near current elevated levels resulting in gross margins of 17.9% (down from 21.7%). Competitive pressures have reduced our operating margin projections to 10.6% from 15.9% and also reduced our pretax income projections to $9.2 million from $12.6 million.

Our 2010 estimates are based on guidance calling for Q4 revenue to be consistent with Q3. As this guidance was given a month into the quarter, we feel management should have a good basis for what to expect. We expect SG&A expenses to increase due to headcount changes (one additional sales member was added in Q4 to bring the total to five). The company guided for a tax rate of 30.1%.

For 2010 we are projecting cash earnings of $14.8 million. Increases in income tax receivables of $2.7 million and inventory of $1.1 million should result in $11.5 million cash from operations. $26.7 million of capital expenditures offset by $12.0 million proceeds from the sale of investment securities, and a $5.4 million construction loan offset by a $2.8 million pay down in debt should reduce cash by $0.3 million in 2010 for an ending balance of $0.9 million.

We project 2011 revenue of $102.5 million and net income of $9.9 million or $1.27 per diluted share. We previously projected 2011 revenue of $116.0 million and net income of $13.7 million or $1.76 per diluted share. The decrease in our estimates is based on product placement delays and the highly competitive market. Our estimates imply only 50% utilization of the new converting line due to the increased level of competition. This reflects Orchids conversion of almost all (54,000 tons) of its current parent roll capacity into finished product. Competitive pressures have reduced our operating margin projections to 14.7% from 17.2% and also reduced our pretax income projections to $14.1 million from $19.3 million.

Our 2011 estimates are based on a 30% increase in converted product sales due to the new converting line. We project gross margins of 21.6% (previously 25%) based on increased sales of higher margin product and the offsetting effect that competitive pressures could have on selling prices. SG&A expenses should increase due to greater converted product sales. We project a tax rate of 30% to reflect Oklahoma's investment tax credits associated with capital equipment investments.

For 2011 we are projecting cash earnings of $17.5 million. Decreases in income tax receivables of $2.7 million offset by increased accounts receivable of $0.5 million should result in cash from operations of approximately $19.6 million. We project $3.5 million of capital expenditures and a $12.4 million pay down of debt will result in a $3.7 million net increase in cash in 2011 for an ending balance of $4.5 million.

Risks

Customer concentration
Three customers (Dollar General, Family Dollar (NYSE: FDO), and Wal-Mart (NYSE: WMT)) accounted for approximately 64% of converted product sales in 2009. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition
As mentioned earlier, competitors moved into Orchids' operating region. In 2009 Pacific Paper added a new converting plant in Memphis, Tennessee and Cellu Tissue (NYSE: CLU) opened a converting plant in Oklahoma City, Oklahoma in 2010. Both plants are in Orchids' focused 500-mile sales area. The increased presence of 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 experience problems with its new converting line which could delay or cancel customer orders
The new converting line may not provide the capacity, capability or efficiency originally projected. This could lead to customer orders being delayed or canceled which could cause significant harm to the company's relationships with new or existing customers.

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

Labor interruptions
All of Orchids' hourly paid employees are represented by a labor 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 2012. 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 operations.

Unexpected shutdowns
Three of Orchids' four paper machines are approximately 50 years old. 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 disputes and mechanical or process failures.

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 5.6 million shares in the float with an average daily volume of approximately 16,000 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.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	2008A	2009A	9/2010A	2010E	2011E
Assets					
Current assets:					
Cash	11	1,232	6	887	4,540
Accounts receivable	6,514	6,750	7,468	6,665	7,210
Inventories	6,253	7,569	7,487	8,666	8,959
Short term investments	-	18,509	9,516	6,516	6,516
Income taxes receivable	-	-	2,653	2,653	-
Prepaid expenses	399	497	703	703	700
Deferred income taxes	557	547	693	700	700
Total current assets	13,734	35,104	28,526	26,789	28,624
Property, plant and equipment	60,659	72,691	92,100	93,574	90,070
Deferred debt issuance costs	89	104	92	100	100
Total Assets	**74,482**	**107,899**	**120,718**	**120,463**	**118,794**
Liabilities & stockholders' equity					
Current liabilities:					
Accounts payable	4,699	4,049	5,688	4,636	4,792
Accrued liabilities	2,584	3,118	4,077	3,079	3,330
Current portion of long-term debt	2,998	3,742	8,839	8,800	3,700
Total current liabilities	10,281	10,909	18,604	16,514	11,823
Long-term debt	21,067	19,533	17,105	17,300	10,000
Deferred income taxes	9,572	14,337	16,442	17,100	17,100
Total liabilities	**40,920**	**44,779**	**52,151**	**50,914**	**38,923**
Total stockholders' equity	**33,562**	**63,120**	**68,567**	**69,549**	**79,872**
Total liabilities & stockholders' equity	**74,482**	**107,899**	**120,718**	**120,463**	**118,794**

Source: Company filings and Taglich Brothers' estimates

Orchids Paper Products Company

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

	2007A	2008A	2009A	2010E	2011E
Net sales	74,648	90,202	95,963	94,748	102,500
Cost of sales	63,717	75,196	67,936	77,783	80,410
Gross profit	10,931	15,006	28,027	16,965	22,091
SG&A expenses	5,234	6,259	7,343	6,925	7,050
Operating income (loss)	5,697	8,747	20,684	10,040	15,041
Interest expense	2,828	1,361	692	925	1,000
Other (income) expense	(36)	(10)	(24)	(66)	(60)
Income (loss) before taxes	2,905	7,396	20,016	9,181	14,101
Income tax expense (benefit)	307	2,205	6,464	2,779	4,231
Net income (loss)	2,598	5,191	13,552	6,402	9,870
Basic EPS	0.42	0.82	2.00	0.86	1.32
Diluted EPS	0.40	0.79	1.89	0.83	1.27
Basic Shares Outstanding	6,256	6,329	6,771	7,464	7,500
Diluted Shares Outstanding	6,465	6,542	7,177	7,755	7,800
Margin Analysis					
Gross margin	14.64%	16.6%	29.2%	17.9%	21.6%
SG&A expenses	7.01%	6.9%	7.7%	7.3%	6.9%
Operating margin	7.63%	9.7%	21.6%	10.6%	14.7%
Net margin	3.48%	5.8%	14.1%	6.8%	9.6%
Year / Year Growth					
Total Revenues	24.02%	20.8%	6.4%	-1.3%	8.2%
Net Income	254.92%	99.8%	161.1%	-52.8%	54.2%
EPS	260.02%	97.5%	138.0%	-56.3%	53.3%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2009, 2010, and 2011
(in thousands $)

	3/09A	6/09A	9/09A	12/09A	2009A	3/10A	6/10A	9/10A	12/10E	2010E	3/11E	6/11E	9/11E	12/11E	2011E
Net sales	23,640	24,131	24,557	23,635	95,963	21,040	24,685	24,523	24,500	94,748	24,700	25,200	25,900	26,700	102,500
Cost of sales	17,208	16,303	17,128	17,297	67,936	17,179	19,610	20,494	20,500	77,783	20,378	19,530	19,943	20,559	80,410
Gross profit	6,432	7,828	7,429	6,338	28,027	3,861	5,075	4,029	4,000	16,965	4,323	5,670	5,957	6,141	22,091
SG&A expenses	1,830	2,087	1,772	1,654	7,343	1,735	1,841	1,649	1,700	6,925	1,725	1,750	1,775	1,800	7,050
Operating income (loss)	4,602	5,741	5,657	4,684	20,684	2,126	3,234	2,380	2,300	10,040	2,598	3,920	4,182	4,341	15,041
Interest expense	159	135	174	224	692	215	211	249	250	925	250	250	250	250	1,000
Other (income) expense	(3)	(1)	(5)	(15)	(24)	(14)	(13)	(24)	(15)	(66)	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	4,446	5,607	5,488	4,475	20,016	1,925	3,036	2,155	2,065	9,181	2,363	3,685	3,947	4,106	14,101
Income tax expense (benefit)	1,649	1,832	1,673	1,310	6,464	565	864	713	637	2,779	709	1,106	1,184	1,232	4,231
Net income (loss)	2,797	3,775	3,815	3,165	13,552	1,360	2,172	1,442	1,428	6,402	1,654	2,579	2,763	2,874	9,870
Basic EPS	0.44	0.58	0.56	0.42	2.00	0.18	0.29	0.20	0.19	0.86	0.22	0.34	0.37	0.38	1.32
Diluted EPS	0.42	0.55	0.52	0.40	1.89	0.18	0.28	0.18	0.18	0.83	0.21	0.33	0.35	0.37	1.27
Basic Shares Outstanding	6,409	6,469	6,839	7,392	6,771	7,395	7,487	7,487	7,487	7,464	7,500	7,500	7,500	7,500	7,500
Diluted Shares Outstanding	6,684	6,891	7,304	7,831	7,177	7,729	7,768	7,762	7,762	7,755	7,800	7,800	7,800	7,800	7,800
Margin Analysis															
Gross margin	27.2%	32.4%	30.3%	26.8%	29.2%	18.4%	20.6%	16.4%	16.3%	17.9%	17.5%	22.5%	23.0%	23.0%	21.6%
SG&A expenses	7.7%	8.6%	7.2%	7.0%	7.7%	8.2%	7.5%	6.7%	6.9%	7.3%	7.0%	6.9%	6.9%	6.7%	6.9%
Operating margin	19.5%	23.8%	23.0%	19.8%	21.6%	10.1%	13.1%	9.7%	9.4%	10.6%	10.5%	15.6%	16.1%	16.3%	14.7%
Net margin	11.8%	15.6%	15.5%	13.4%	14.1%	6.5%	8.8%	5.9%	5.8%	6.8%	6.7%	10.2%	10.7%	10.8%	9.6%
Year / Year Growth															
Total Revenues	16.6%	8.1%	5.3%	-2.7%	6.4%	-11.0%	2.3%	-0.1%	3.7%	-1.3%	17.4%	2.1%	5.6%	9.0%	8.2%
Net Income	357.8%	325.6%	168.1%	39.4%	161.1%	-51.4%	-42.5%	-62.2%	-54.9%	-52.8%	21.6%	18.7%	91.6%	101.3%	54.2%
EPS	351.9%	303.1%	138.6%	15.7%	138.0%	-57.9%	-49.0%	-65.5%	-54.5%	-56.3%	19.9%	18.3%	96.8%	100.3%	53.3%

Source: Company filings and Taglich Brothers' estimates

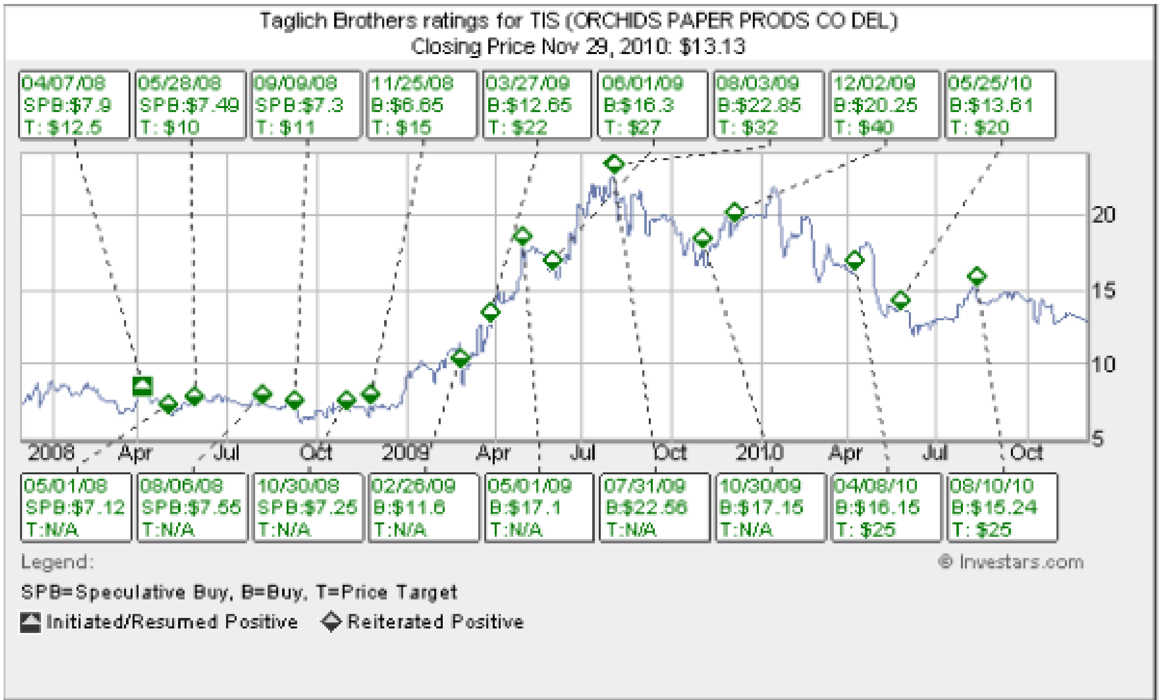
Orchids Paper Products Company

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

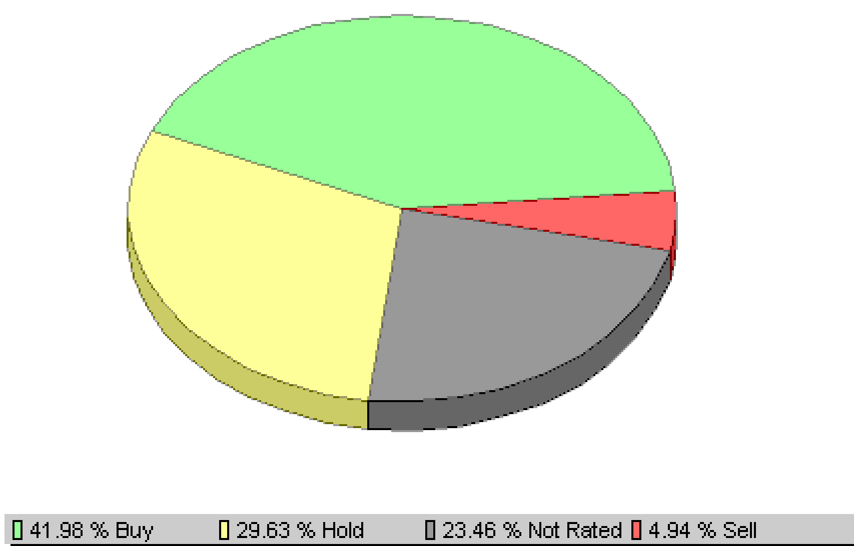
	2008A	2009A	9mos2010A	2010E	2011E
Cash Flows from Operating Activities					
Net income(loss)	5,191	13,552	4,974	6,402	9,870
Depreciation and amortization	3,156	3,708	4,011	5,800	7,000
Provision for doubful accounts	87	60	45	60	60
Deferred income taxes	2,145	4,774	1,959	1,959	-
Stock based compensation	313	603	473	600	600
Changes in assets and liabilities					
Accounts receivable	(1,074)	(296)	(763)	85	(545)
Inventories	(1,379)	(1,316)	82	(1,097)	(293)
Prepaid expenses	(18)	(98)	(206)	(206)	(200)
Income taxes receivable	24	-	(2,653)	(2,653)	2,653
Accounts payable	(61)	(650)	1,639	587	157
Acrrued liabilities	124	535	959	(39)	252
Net Cash Provided by (Used in) Operations	**8,508**	**20,872**	**10,520**	**11,498**	**19,553**
Cash Flows from Investing Activities					
Proceeds from the sale of investment securities	-	3,993	8,993	11,993	-
Purchase of investment securities	-	(22,502)	-	-	-
Purchase of property and equipment	(6,926)	(15,711)	(23,383)	(26,683)	(3,500)
Net Cash Provided by (Used in) Investing	**(6,926)**	**(34,220)**	**(14,390)**	**(14,690)**	**(3,500)**
Cash Flows from Financing Activities					
Proceeds from issuance of stock	-	14,847	-	-	-
Borrowings under construction loan	-	3,756	5,197	5,400	-
Repayments on construction loan	-	-	-	-	(5,400)
Borrowings on long-term debt	-	-	-	-	-
Retirement of borrowings on long-term debt	-	-	-	-	-
Principal payments on long-term debt	(2,286)	(3,059)	(2,820)	(2,820)	(7,000)
Retirment of subordinated debentures	-	-	-	-	-
Net borrowings (repayments) on revolving credit line	696	(1,487)	292	292	-
Purchase of common stock by former CEO	-	-	-	-	-
Purchase by the company of common stock from former CEO	-	-	-	-	-
Proceeds from the exercise of warrants attached to debentures	16	286	-	-	-
Proceeds from the exercise of stock options		269	-	-	-
Deferred debt issuance cost	-	(43)	(25)	(25)	-
Net Cash Provided by (Used in) Financing	**(1,574)**	**14,569**	**2,644**	**2,847**	**(12,400)**
Net Change in Cash	**8**	**1,221**	**(1,226)**	**(345)**	**3,653**
Cash - Beginning of Period	**3**	**11**	**1,232**	**1,232**	**887**
Cash - End of Period	**11**	**1,232**	**6**	**887**	**4,540**
Cash Flow from Operations	8,508	20,872	10,520	11,498	19,553
Capital Expenditures	(6,926)	(15,711)	(23,383)	(26,683)	(3,500)
Free Cash Flow	1,582	5,161	(12,863)	(15,185)	16,053

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	4.17%
Hold		
Sell	1	100.00%
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 456,216 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 438,317 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 144,150 shares of TIS common stock (includes 33,477 shares of restricted stock). Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 5,262 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)
Cellu Tissue (NYSE: CLU)
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.

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.