TAGLICHBROTHERS
The Standard of Excellence in the Microcap Market
Member: FINRA, SIPC

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
December 2, 2009

TIS $20.25 — (NYSE AMEX)

	FY(2007)A	FY(2008)A	FY(2009)E	FY(2010)E
Revenues (millions)	$74.6	$90.2	$97.3	$114.5
Earnings per share	$0.40	$0.79	$1.97	$2.36

52-Week range	$22.98 – $7.15	Fiscal year ends:	December
Shares outstanding as of 11/4/09	7.4 million	Revenue per share (TTM)	$14.12
Approximate float	4.9 million	Price/Sales (TTM)	1.4X
Market capitalization	$137 million	Price/Sales (FY2010)E	1.4X
Book value/share	$8.09	Price/Earnings (TTM)	11.0X
Price/tangible book value	2.5X	Price/Earnings (FY2010)E	8.6X

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 reiterating our Buy rating on Orchids Paper Products Company (NYSE AMEX: TIS) and raising our twelve-month price target to $40.00 per share (previously $32.00) primarily due to an increase in our fiscal 2010 earnings estimates.

On October 28, 2009, Orchids reported that third quarter sales increased 5% to $24.6 million from $23.3 million and net income increased to $3.8 million or $0.52 per diluted share versus net income of $1.4 million or $0.22 per diluted share for the year earlier quarter. We estimated third quarter net sales of $25.0 million and net income of $3.7 million or $0.54 per diluted share.

Orchids plans to start a new converting line that should support strong sales gains in 2010.

We project 2009 revenue of $97.3 million and net income of $14.1 million or $1.97 per diluted share. We previously projected 2009 revenue of $99.0 million and net income of $14.2 million or $2.07 per diluted share. The decrease in our revenue estimate is primarily due to the recent results. The decrease in our earnings per share estimate is primarily due to a higher share count from the recently completed secondary offering.

For 2010, we project revenue of $114.5 million and net income of $18.6 million or $2.36 per diluted share. We previously projected 2010 revenue of $106.0 million and net income of $15.0 million or $2.18 per diluted share. The increase in our estimates is primarily due to the start up of a new converting line in 2010.

****Please view our disclaimer located on page 11.***

Recommendation and Valuation

We are reiterating our **Buy** rating on Orchids Paper Products as we believe the stock offers the potential for significant price appreciation from its current level.

Since our last report, the company has begun construction on a new warehouse facility in connection with the start-up of a new converting line in 2010. The new converting line's capacity of 4 million cases per year equates to approximately 26,000 additional tons of converted product.

Our 2010 estimates are based on a ramp-up in sales starting in the third quarter of fiscal 2010. Larger than expected sales could lend upside potential to our earnings estimates. The increased tonnage of converted product should also result in a significant boost to margins as converted products have historically generated significantly higher margins than parent rolls.

We believe the company's historic earnings multiple is an appropriate way to value shares of TIS. By applying the company's historic multiple of 17X to our earnings estimate of $2.36 per share in fiscal 2010, we arrive at a **twelve-month price target of approximately $40.00.**

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 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

According to a July 2009 report by the industry research firm IBISWorld (Sanitary Paper Product Manufacturing in the US), the US tissue market is forecasted to be a $9.1 billion market in 2009. IBISWorld projects the overall industry to decline annually by 1.3% over the five years through 2014. However, although the overall market in the US is projected to decline minimally over the next few years, by 2011, non-grocery retailers, like the dollar stores that Orchids sells to, are projected to take an additional 20% of the market share away from traditional grocery retailers[1].

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

In May 2009, the Nielsen Company (a global information and media company) reported that dollar stores have been a destination for basic household products in the recession and that one of the most commonly purchased household items at dollar stores were paper goods such as napkins and paper towels.

Nielsen reported that the economic downturn has been a boon to dollar stores, which attracted increased consumer spending in 2008, including spending among high and middle income shoppers. Nielsen's analysis of consumer spending habits showed consumers at all income levels shopping more at dollar stores, with high income shoppers spending 18% more at dollar stores in the second half of 2008 compared to the prior year.

According to Nielsen, an estimated 65 million U.S. consumers shopped at dollar stores in 2008. In May 2009, the Chicago Tribune reported that nearly half of U.S. households shop at dollar stores each month, up from 36% in 2002 according to the market research firm Retail Forward.

3rd Quarter and Nine Months Financial Results

For the third quarter ended September 30, 2009 versus the same period in 2008:

- Net sales increased 5% to $24.6 million from $23.3 million.
- Gross margins increased to 30.3% from 16.3%.
- Selling, general and administrative (SG&A) expenses increased to $1.8 million from $1.6 million.
- Interest expense decreased to $0.2 million from $0.3 million.
- Net income was $3.8 million or $0.52 per diluted share versus net income of $1.4 million or $0.22 per diluted share.

We estimated third quarter net sales of $25.0 million and net income of $3.7 million or $0.54 per diluted share.

Converted product sales increased to $22.2 million from $19.3 million while parent roll sales decreased to $2.4 million from $4.0 million. The increase in converted product sales was primarily due to a 9% increase in the net selling price per ton and a 6% increase in converted tons sold. The decrease in parent roll sales was primarily due to a 17% decrease in tonnage shipped and a 40% decrease in the net selling price. Total tons shipped decreased to 13,755 from 13,837, while paper costs decreased to approximately $9.3 million from approximately $11.1 million. The overall net selling price per ton increased to $1,785 from $1,685.

The increase in gross margins was primarily due to lower waste paper prices, increased converted product selling prices, increased shipments of converted products, lower converting direct labor costs and reduced packaging costs.

The increase in SG&A expenses was primarily due to higher costs associated with accruals under the company's incentive bonus program, higher professional fees as well as increased commissions due to increased sales of converted product.

The decrease in interest expense was the result of lower LIBOR interest rates.

		Q3(9/09)A		Q3(9/08)A		9mos(9/09)A		9mos(9/08)A
Net sales	$	**24,557**	$	**23,312**	$	**72,328**	$	**65,902**
Cost of sales		17,128		19,518		50,639		56,297
Gross profit		7,429		3,794		21,689		9,605
Selling, general and administrative expenses		1,772		1,551		5,689		4,427
Operating income (loss)		5,657		2,243		16,000		5,178
Interest expense		174		310		468		1,041
Other (income) expense		(5)		(3)		(9)		(9)
Income (loss) before taxes		5,488		1,936		15,541		4,146
Income tax expense (benefit)		1,673		513		5,154		1,225
Net income (loss)	$	**3,815**	$	**1,423**	$	**10,387**	$	**2,921**
Basic EPS	$	**0.56**	$	**0.22**	$	**1.58**	$	**0.46**
Diluted EPS	$	**0.52**	$	**0.22**	$	**1.49**	$	**0.45**
Basic Shares Outstanding		6,839		6,329		6,562		6,328
Diluted Shares Outstanding		7,304		6,500		6,955		6,527

For the nine months quarter ended September 30, 2009 versus the same period in 2008:

- Net sales increased 10% to $72.3 million from $65.9 million.
- Gross margins increased to 30.0% from 14.6%.
- Selling, general and administrative (SG&A) expenses increased to $5.7 million from $4.4 million.
- Interest expense decreased to $0.5 million from $1.0 million.
- Net income was $10.4 million or $1.49 per diluted share versus net income of $2.9 million or $0.45 per diluted share.

Converted product sales increased to $65.8 million from $53.8 million while parent roll sales decreased to $6.6 million from $12.1 million. Total tons shipped decreased to 38,481 from 41,025, while paper costs decreased to approximately $26.2 million from approximately $33.2 million. The overall net selling price per ton increased to $1,880 from $1,606.

The increase in gross margins and SG&A expenses was due to the same reasons mentioned for the quarter.

The decrease in interest expense was the result of lower LIBOR interest rates.

Liquidity

As of September 30, 2009, Orchids had $0.3 million in cash. Orchids had working capital of $29.2 million, long-term debt of $20.9 million, and shareholders' equity of $59.8 million or approximately $8.09 per share.

Cash flow provided by operating activities was $14.1 million in the first nine months of fiscal 2009 which primarily resulted from cash earnings of $17.2 million partially offset by an increase in accounts receivable of $2.5 million.

Cash flow used in investing activities was $29.1 million in the first nine months of fiscal 2009 due to the purchase of $22.5 million in short-term investments from the proceeds from a common stock offering as well as from cash provided from operations. Additionally, there were $6.6 million in expenditures on capital projects, primarily for a waste water treatment project, which was completed in August.

Cash flow provided by financing activities was $15.3 million in the first nine months of fiscal 2009 which was primarily attributable to $14.8 million in net proceeds from the common stock offering and $3.8 million of borrowings under a construction loan related to the waste water treatment plant project. These inflows were partially offset by principal payments of $2.3 million on term loans and a $1.5 million repayment on the revolving line of credit.

In the second quarter of 2009, Orchids announced an expansion plan, which included the construction of a new warehouse and the purchase and installation of a new converting line. The current estimated cost of this project is $27.1 million, which consists of $6.8 million for the new warehouse and $20.3 million for the new converting line. Funding for this project will come from the proceeds of a recently completed sale of common stock, a construction loan from Orchid's existing bank group and from cash generated from operations. Payments required under the project began in the third quarter of 2009 and will continue through the third quarter of 2010. Based on our cash flow projections, we believe the company should have adequate cash to fund this project.

On August 26, 2009, Orchids closed an offering of 750,000 shares of common stock at an offering price of $18.50 per share and received net proceeds of approximately $12.8 million after deducting the underwriting discount and offering expenses. On September 2, 2009, the underwriter exercised their over-allotment option and purchased an additional 112,500 shares of common stock at a price of $18.50 per share of which Orchids received $2.0 million in net proceeds.

Outlook

In the third quarter of 2008, the company's converted product sales increased by almost $2 million sequentially and have since grown steadily. This was due to the hiring of a productivity consultant to assist management during the second quarter of 2008 to design and implement a management operating system and to help management implement a new work schedule and work practices. The management operating system helped identify and confirm root causes of issues that impaired production. As a result of those efforts and management's guidance for continuing converted product growth, we are projecting further improvement in converted product sales for 2009 and 2010.

On the third quarter conference call, management said it was seeing improvement in the parent roll market. However, as parent roll sales declined steadily through 2QFY09, we are conservatively projecting flat parent roll sales until we see evidence of continuing improvement in this market.

The new converting line, which has a design capacity of up to 4 million cases per year, will be capable of producing both bathroom tissue and towel products and will also provide improved product configuration offerings (ability to offer packaging of various quantities) and enhanced graphics and embossing.

The new converting line's capacity of 4 million cases per year equates to approximately 26,000 additional tons of converted product. Management said that Orchid's total converted capacity with the new converting line should be approximately 66,000 tons annually implying that the company would have to purchase approximately 12,000 parent rolls in the outside market (54,000 ton parent roll capacity from existing equipment).

The additional converting capacity should result in over a 60% increase in converted product capacity from current levels. On the third quarter conference call, management said that an analysis in its regional markets showed the market could absorb this additional capacity. Our own research into the markets' ability to absorb Orchids' higher capacity revealed that the market should have no trouble absorbing this extra capacity. It is our belief that the new converting line's ability to produce a better quality product will enable the company to increase sales to grocery stores. Our research into this expanded market revealed that two large grocery chains in Orchids' primary selling radius should absorb as much as 2/3 (2.7 million cases) of Orchids' additional capacity. Also, dollar stores that Orchids currently sells to are looking to purchase increased volume from Orchids.

One of the large grocery chains that we believe will be buying Orchids' products has over 300 stores in Texas with $11.0 billion in annual sales and the other has over 1900 stores with $6.9 billion in annual sales. Due to the company's proximity to these stores, buying Orchids' products should save these stores approximately 2/3 in shipping costs compared with other products, a significant competitive advantage.

As far as natural gas costs are concerned, the company entered into a contract to purchase 334,000 MMBTU of its natural gas requirements at $7.50 per MMBTU plus a $0.07 per MMBTU management delivery fee for the period from April 2009 through March 2011. The amounts represent approximately 60% of the company's natural gas requirements based upon expected usage rates for 2009. With the company's natural gas requirements recently approximating only 6% of its total cost of sales, and with the recent hedging in place, we believe that changes in the price of natural gas should not have a pronounced effect on the company's total cost of sales as it has had before the hedge was in place.

Projections

For 2009, we project revenue of $97.3 million and net income of $14.1 million or $1.97 per diluted share. We previously projected 2009 revenue of $99.0 million and net income of $14.2 million or $2.07 per diluted share. The adjustment in our revenue projection is primarily due to the lower than anticipated third quarter revenue. The decrease in our earnings per share estimate is primarily due to a higher share count from the recently completed secondary offering.

Our 2009 estimates are made based on:

- Gross margins of 30% versus our previous projection of 31% due to increased waste paper costs.
- SG&A expenses increasing due to increased converted product sales.
- A tax rate of 33.2% (company guidance).

For 2009 we are projecting cash flow (net income plus non-cash charges) of $22.3 million. An increase in receivables, inventories and accrued liabilities and a decrease in payables should result in cash provided by operations of $18.9 million. $22.5 million purchase of investment securities and $15.0 million of capital expenditures partially offset by $6.0 million proceeds from the sale of securities should result in cash used in investing of approximately $31.5 million. We are projecting cash provided by financing activities of approximately $13.1 million mostly due to the recent secondary offering. These components should result in a cash balance of $0.5 million at the end of fiscal 2009.

Our 2010 estimates are based on a continuation of the current growth trend in converted product sales in the first half with a significant boost in converted product sales in the second half due to the new converting line. We project 2010 revenue of $114.5 million and net income of $18.6 million or $2.36 per diluted share. We previously projected 2010 revenue of $106.0 million and net income of $15.0 million or $2.18 per diluted share. The increase in our estimates is primarily due to the start up of the new converting line by the end of the second quarter of 2010.

For 2010 we are projecting cash flow of $27.7 million. Due to the increased business associated with the expended converting operations, we are projecting increases in accounts receivables, inventories, accounts payable, and accrued liabilities which should result in cash provided by operations of approximately $26.3 million. $24.0 million of capital expenditures mostly to fund the expansion partially offset by $5.0 million proceeds from the sale of securities should result in cash used in investing of $19.0 million. We are projecting a $7.0 million pay down in debt. These items should result in a cash balance of $1.2 million at the end of 2010.

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.

Customer concentration

A substantial percentage of Orchids' product revenues are attributable to three significant customers (Dollar General, Family Dollar, and Wal-Mart). During fiscal 2008, sales to these significant customers accounted for approximately 64% of the company's converted product 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. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Significant indebtedness; substantial capital requirements

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, 2009, Orchids had $24.1 million of indebtedness of which $3.1 million was classified as current and $20.9 million as long-term. 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.

Orchids' operations require substantial capital. The company's current levels of business have resulted in the necessity to utilize a third-party warehouse. Orchids is currently building a new warehouse adjacent to its converting facility, which it estimates would cost approximately $6.8 million. In addition, the company will be adding a new converting line which it currently estimates will cost approximately $20.3 million.

Although we believe the company will have sufficient resources to meet its anticipated financial obligations for 2010, there is always the risk that actual results will fall short of expectations which could result in insufficient cash flow to fund expansion projects.

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

Labor interruptions

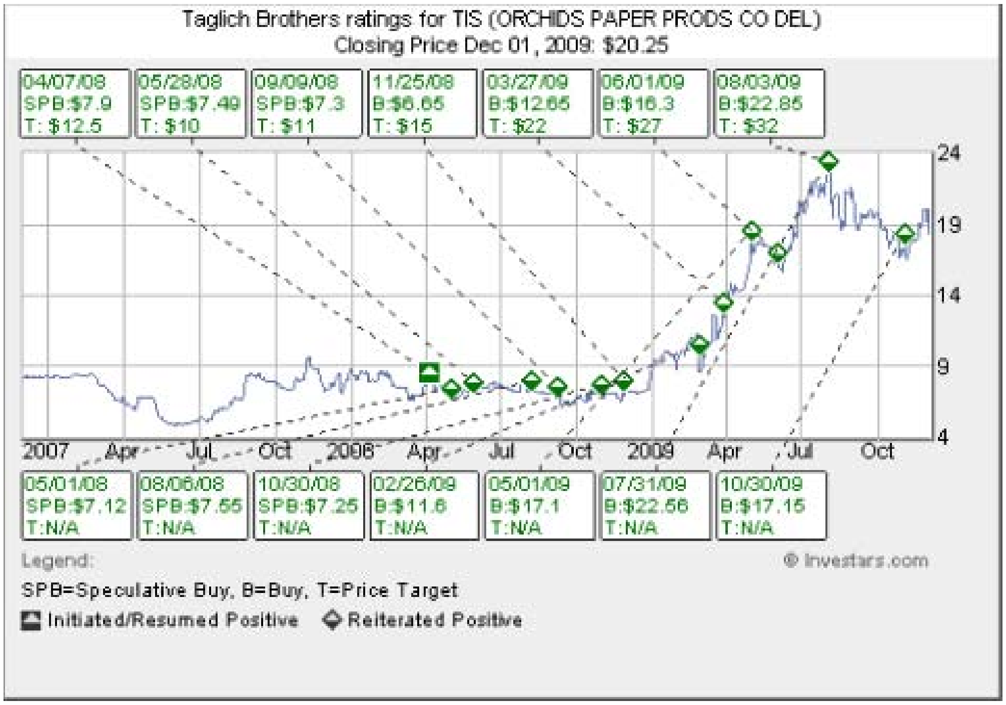
All of Orchids' hourly paid employees are represented by a labor union. The collective bargaining agreement with Local 5-930, which represents the paper mill workers, will expire in February 2011, and the collective bargaining agreement with Local 5-1480, which represents the converting facility workers, will expire in June 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 operations.

Liquidity Risk

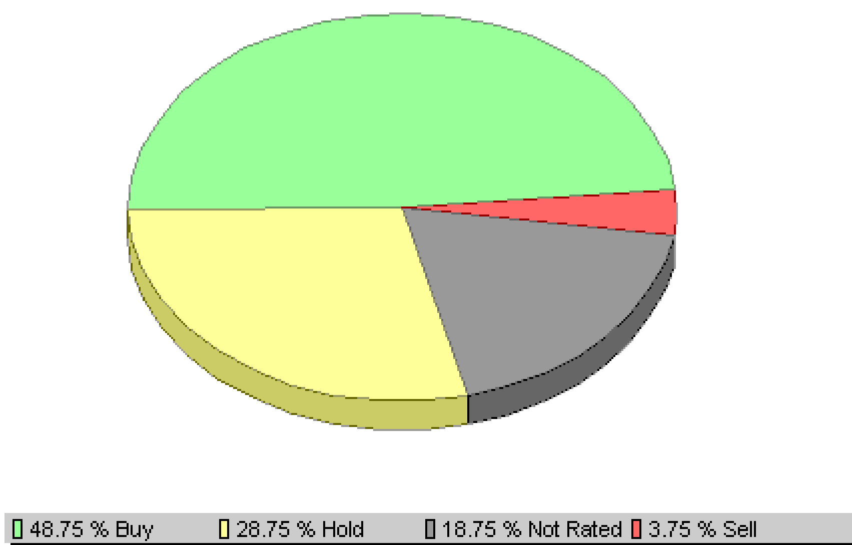
Shares of TIS have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 5.1 million shares in the float with an average daily volume of approximately 50,000 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.



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	3.57%
Hold	0	0.00%
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:

Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

* 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 468,966 shares of TIS common stock, 2,881 shares of restricted stock, and 35,050 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 439,067 shares of TIS common stock, 341,244 shares of restricted stock, and 35,050 warrants. Richard Oh, Director of Research and Managing Director of Taglich Brothers, Inc., owns 18,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 116,323 shares of TIS common stock, 33,477 shares of restricted stock, and 30,000 warrants. Other employees at Taglich Brothers, Inc., also own or have a controlling interest in 11,262 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.

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.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	12/31/2008A	9/30/2009A	12/31/2009E	12/31/2010E
Assets				
Current assets:				
Cash	$ 11	$ 317	$ 486	$ 1,240
Accounts receivable	6,514	8,930	8,800	10,352
Inventories	6,253	6,626	6,750	8,000
Short term investments	-	22,502	13,500	8,500
Income taxes receivable	-	430	-	-
Prepaid expenses	399	738	738	738
Deferred income taxes	557	557	557	557
Total current assets	13,734	40,100	30,831	29,387
Property, plant and equipment	60,659	64,573	73,500	90,000
Deferred debt issuance costs	89	110	100	100
Total Assets	**$ 74,482**	**$ 104,783**	**$ 104,431**	**$ 119,487**
Liabilities & stockholders' equity				
Current liabilities:				
Accounts payable	$ 4,699	$ 3,695	$ 3,400	$ 4,000
Accrued liabilities	2,584	4,039	4,000	4,800
Current portion of long-term debt	2,998	3,140	3,500	3,500
Total current liabilities	10,281	10,874	10,900	12,300
Long-term debt	21,067	20,910	25,000	21,000
Deferred income taxes	9,572	13,173	13,173	13,173
Total liabilities	**40,920**	**44,957**	**49,073**	**46,473**
Total stockholders' equity	**33,562**	**59,826**	**55,358**	**73,014**
Total liabilities & stockholders' equity	**$ 74,482**	**$ 104,783**	**$ 104,431**	**$ 119,487**

Orchids Paper Products Company

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

	FY(12/06)A	FY(12/07)A	FY(12/08)A	FY(12/09)E	FY(12/10)E
Net sales	**$ 60,190**	**$ 74,648**	**$ 90,202**	**$ 97,328**	**$ 114,500**
Cost of sales	53,988	63,717	75,196	67,889	76,759
Gross profit	6,202	10,931	15,006	29,439	37,741
Selling, general and administrative expenses	4,153	5,234	6,259	7,589	8,588
Operating income (loss)	2,049	5,697	8,747	21,850	29,153
Interest expense	1,980	2,828	1,361	643	700
Other (income) expense	(99)	(36)	(10)	(9)	-
Income (loss) before taxes	168	2,905	7,396	21,216	28,453
Income tax expense (benefit)	(564)	307	2,205	7,038	9,817
Net income (loss)	**$ 732**	**$ 2,598**	**$ 5,191**	**$ 14,178**	**$ 18,636**
Basic EPS	**$ 0.12**	**$ 0.42**	**$ 0.82**	**$ 2.09**	**$ 2.52**
Diluted EPS	**$ 0.11**	**$ 0.40**	**$ 0.79**	**$ 1.97**	**$ 2.36**
Basic Shares Outstanding	6,234	6,256	6,329	6,777	7,400
Diluted Shares Outstanding	6,558	6,465	6,542	7,195	7,900
Margin Analysis					
Gross margin	10.30%	14.64%	16.64%	30.25%	32.96%
Selling, general and administrative	6.90%	7.01%	6.94%	7.80%	7.50%
Operating margin	3.40%	7.63%	9.70%	22.45%	25.46%
Net margin	1.22%	3.48%	5.75%	14.57%	16.28%
Year / Year Growth					
Total Revenues	4.32%	24.02%	20.84%	7.90%	17.64%
Net Income	-47.41%	254.92%	99.81%	173.13%	31.44%
EPS	-63.16%	260.02%	97.46%	148.35%	19.71%

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

	Q1(3/09)A	Q2(6/09)A	Q3(9/09)A	Q4(12/09)E	FY(12/09)E	Q1(3/10)E	Q2(6/10)E	Q3(9/10)E	Q4(12/10)E	FY(12/10)E
Net sales	**$ 23,640**	**$ 24,131**	**$ 24,557**	**$ 25,000**	**$ 97,328**	**$ 25,500**	**$ 26,000**	**$ 28,000**	**$ 35,000**	**$ 114,500**
Cost of sales	17,208	16,303	17,128	17,250	**67,889**	17,659	17,940	18,760	22,400	**76,759**
Gross profit	6,432	7,828	7,429	7,750	**29,439**	7,841	8,060	9,240	12,600	**37,741**
SG&A expenses	1,830	2,087	1,772	1,900	**7,589**	1,913	1,950	2,100	2,625	**8,588**
Operating income (loss)	4,602	5,741	5,657	5,850	**21,850**	5,928	6,110	7,140	9,975	**29,153**
Interest expense	159	135	174	175	**643**	175	175	175	175	**700**
Other (income) expense	(3)	(1)	(5)	-	**(9)**	-	-	-	-	**-**
Income (loss) before taxes	4,446	5,607	5,488	5,675	**21,216**	5,753	5,935	6,965	9,800	**28,453**
Income tax expense (benefit)	1,649	1,832	1,673	1,884	**7,038**	1,985	2,048	2,403	3,381	**9,817**
Net income (loss)	**$ 2,797**	**$ 3,775**	**$ 3,815**	**$ 3,791**	**$ 14,178**	**$ 3,768**	**$ 3,887**	**$ 4,562**	**$ 6,419**	**$ 18,636**
Basic EPS	**$ 0.44**	**$ 0.58**	**$ 0.56**	**$ 0.51**	**$ 2.09**	**$ 0.51**	**$ 0.53**	**$ 0.62**	**$ 0.87**	**$ 2.52**
Diluted EPS	**$ 0.42**	**$ 0.55**	**$ 0.52**	**$ 0.48**	**$ 1.97**	**$ 0.48**	**$ 0.49**	**$ 0.58**	**$ 0.81**	**$ 2.36**
Basic Shares Outstanding	6,409	6,469	6,839	7,391	**6,777**	7,400	7,400	7,400	7,400	**7,400**
Diluted Shares Outstanding	6,684	6,891	7,304	7,900	**7,195**	7,900	7,900	7,900	7,900	**7,900**
Margin Analysis										
Gross margin	27.21%	32.44%	30.25%	30.50%	**30.25%**	30.75%	31.00%	33.00%	36.00%	**32.96%**
SG&A expenses	7.74%	8.65%	7.22%	7.60%	**7.80%**	7.50%	7.50%	7.50%	7.50%	**7.50%**
Operating margin	19.47%	23.79%	23.04%	23.40%	**22.45%**	23.25%	23.50%	25.50%	28.50%	**25.46%**
Net margin	11.83%	15.64%	15.54%	15.16%	**14.57%**	14.78%	14.95%	16.29%	18.34%	**16.28%**
Year / Year Growth										
Total Revenues	16.60%	8.14%	5.34%	2.88%	**7.90%**	7.87%	7.75%	14.02%	40.00%	**17.64%**
Net Income	357.77%	325.59%	168.10%	67.00%	**173.13%**	34.72%	2.97%	19.58%	69.32%	**31.44%**
EPS	351.92%	303.11%	138.58%	37.41%	**148.35%**	16.67%	-10.18%	10.56%	69.32%	**19.71%**

Orchids Paper Products Company

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

	FY2008A	9mos2009A	FY2009E	FY2010E
Cash Flows from Operating Activities				
Net income(loss)	$ 5,191	$ 10,387	$ 14,178	$ 18,636
Depreciation and amortization	3,156	2,661	3,800	4,650
Provision for doubful accounts	87	46	60	100
Deferred income taxes	2,145	3,601	3,601	3,601
Stock based compensation	313	518	700	700
Changes in assets and liabilities				
Accounts receivable	(1,074)	(2,462)	(2,286)	(1,553)
Inventories	(1,379)	(373)	(497)	(1,250)
Prepaid expenses	(18)	(339)	(339)	-
Income taxes receivable	24	(430)	(430)	-
Accounts payable	(61)	(1,004)	(1,299)	600
Acrrued liabilities	124	1,455	1,416	800
Net Cash Provided by (Used in) Operations	**8,508**	**14,060**	**18,904**	**26,284**
Cash Flows from Investing Activities				
Proceeds from the sale of securities and restricted CD	-	-	6,000	5,000
Purchase of investment securities	-	(22,502)	(22,502)	-
Purchase of property and equipment	(6,926)	(6,554)	(15,000)	(24,000)
Net Cash Provided by (Used in) Investing	**(6,926)**	**(29,056)**	**(31,502)**	**(19,000)**
Cash Flows from Financing Activities				
Proceeds from issuance of stock	-	14,848	14,848	-
Borrowings under construction loan	-	3,756	3,756	-
Repayments on construction loan			(1,000)	(1,000)
Principal payments on long-term debt	(2,286)	(2,284)	(3,000)	(4,000)
Net borrowings (repayments) on revolving credit line	696	(1,487)	(2,000)	(2,000)
Proceeds from the exercise of warrants attached to debentures	16	286	286	286
Proceeds from the exercise of stock options		226	226	226
Deferred debt issuance cost	-	(43)	(43)	(43)
Net Cash Provided by (Used in) Financing	**(1,574)**	**15,302**	**13,073**	**(6,531)**
Net Change in Cash	**8**	**306**	**475**	**753**
Cash - Beginning of Period	**3**	**11**	**11**	**486**
Cash - End of Period	**$ 11**	**$ 317**	**$ 486**	**$ 1,240**
Cash Flow from Operations	8,508	14,060	18,904	26,284
Capital Expenditures	(6,926)	(6,554)	(15,000)	(24,000)
Free Cash Flow	$ 1,582	$ 7,506	$ 3,904	$ 2,284