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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
December 2, 2011

TIS $15.34 — (NYSE AMEX)

	2009A	2010A	2011E	2012E
Revenues (millions)	$96.0	$92.5	$98.3	$104.5
Earnings per share	$1.89	$0.76	$0.66	$0.92

52-Week range	$8.53 – $16.61	Fiscal year ends:	December
Shares outstanding a/o 10/31/11	7.5 million	Revenue per share (TTM)	$12.22
Approximate float	5.1 million	Price/Sales (TTM)	1.3X
Market capitalization	$115 million	Price/Sales (FY2012)E	1.1X
Tangible book value/share	$9.49	Price/Earnings (TTM)	26.9X
Price/tangible book value	1.6X	Price/Earnings (FY2012)E	16.7X
Annual dividend	$0.80	Dividend Yield	5.2%

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer, or "at home," market. The company has focused its product design and manufacturing on the discount retail market, primarily the dollar store retailers. (www.orchidspaper.com)

Key investment considerations:

Reiterate Speculative Buy rating. $18.50 (12-month) target, increased from $14.00.

Private label tissue products such as Orchids' are forecasted to capture market share. This should bode well for Orchids' sales as its products are primarily sold under its customers' private labels.

Shipping on previously announced orders (for 0.7 million cases annually) did not start until late in Q2/11 with future shipments expected to be greater in subsequent quarters.

Sales force doubled (from 4 to 8) in Q2/11 with the hiring of a sales and marketing organization with expertise in the at-home tissue market.

We project 2011 revenue of $98.3 million, up from revenue of $94.8 million previously, and unchanged EPS of $0.66.

We project 2012 revenue of $104.5 million and EPS of $0.92 versus earlier estimates of $98.2 million revenue and EPS of $0.89.

Orchids reported Q3/11 sales increased 6% to $24.5 million. Q3/11 EPS of $0.21 (versus $0.18 in Q3/10) exceeded our estimates.

Please view our disclosures on pages 15 - 17.

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Recommendation and Valuation

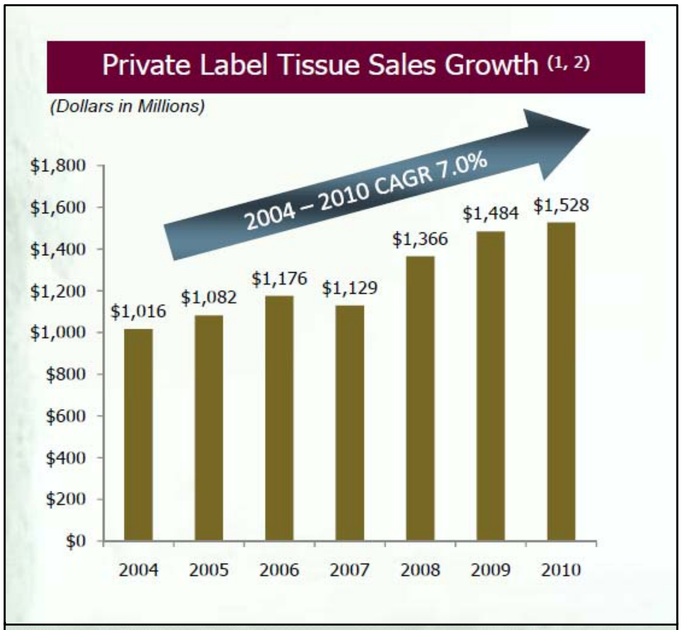
Reiterate **Speculative Buy** rating. $18.50 (12-month) priced target, increased from $14.00 based on increased 2012 revenue and earnings estimates and multiple expansion.

The company's trailing P/E multiple averaged 10X in 2010 (Source: Capital IQ). Since the company announced its dividend policy, the company's P/E multiple increased from 11X in February 2011 to 28X in November 2011. The P/E multiple is currently 27X and has averaged over 20X since a November 9, 2011 announcement which effectively doubled the dividend announced in February 2011. We believe investors will accord TIS a P/E valuation of 20X which applied to our earnings per share estimate of $0.92 for 2012 gives us a **price target of approximately $18.50 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®. Private label tissue sales in the industry have grown at a compound annual growth rate of 7.0% from 2004 to 2010 (see right). Branded tissue sales grew at a compound annual growth rate of 1.9% over the same period.



(1) Represents Paper Towels, Toilet Tissue and Napkins sales.
(2) Source: Information Resources Inc. (IRI).

Orchids does not have supply contracts with any of its customers. Because Orchids products are daily consumable items, order streams are fairly consistent with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products.

An article in PaperAge Magazine (Made in North America – Tissue; December 2010) said that sales of private label tissue products have increased by 47% since 2005. The article mentioned the market share of private label products is projected to continue to grow as consumers will not switch back to branded (more expensive) products when the economy recovers, as the product quality offered by private labels is improving.

In July 2011, IBISWorld said that revenue from tissues is estimated to have decreased slightly as a share of the sanitary paper products industry revenue over the past five years. This is largely due to strong competition among major players, and the emergence of generic brands that sell similar products at much lower prices. Also, demand was hurt by the recession over 2008 and 2009, when customers substituted name brands with that of cheaper products. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 1.3% from 2011 to 2016.

Outlook

Orchids' new warehouse and expanded converting line were completed and started operating in June 2010. The new converting line 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 could 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 over a 50% increase in annual production.

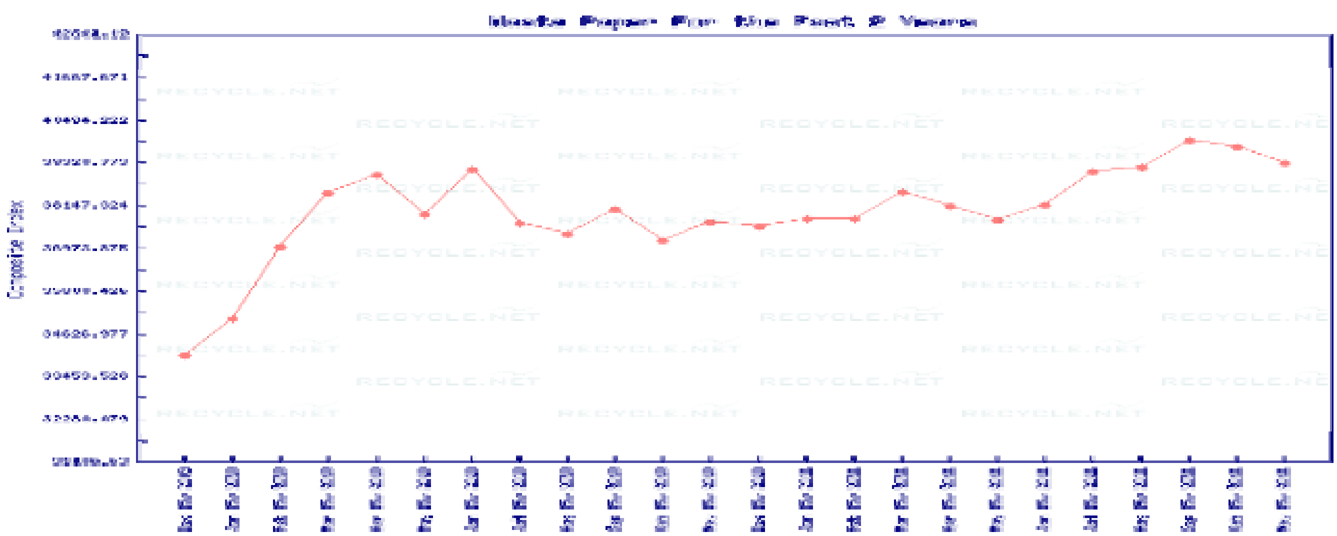
Higher quality product should improve penetration of the dollar store sector. However, higher tier products are not expected to displace lower tier products. A purchasing agent for a top-tier dollar store indicated that Orchids offers a better quality lower tier product than a direct competitor. This supports our view that Orchids will maintain its market share of 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.

Competitors have moved into in Orchids' operating region. In 2009 Pacific Paper added a converting plant in Memphis, Tennessee and Clearwater Paper (NYSE: CLW) opened a converting plant in Oklahoma City, Oklahoma in 2010. Both plants are in Orchids' focused 500-mile sales area. This increased competition in the company's focused region has reduced its competitive cost advantage and lowered margins significantly.

Judging by a rough estimate of the size of Orchids' primary market (over 200,000 tons of converted products consumed annually based on population), the market could, theoretically, absorb all of Orchids' 66,000 ton capacity. However, based on the current competitive environment, we project only modest increases in converted sales over our forecast horizon.

Significant increases in waste paper prices and aggressive pricing of competitors' branded products have compressed Orchids' margins. The following chart shows how waste paper prices have remained relatively high for the past year and a half.



Source: Paper Fiber Network

Economic Outlook

The latest (September 2011) World Economic Outlook from the International Monetary Fund (IMF) said that economic growth was slowing and downside risks were rising. The IMF projected global growth to moderate to 4% through 2012. In the US, economic growth was projected to be 1.5% in 2011 and 1.8% in 2012. This is down from the IMF's projections in June 2011 calling for global growth of 4.3% in 2011 and 4.5% in 2012 and US growth of 2.5% in 2011 and 2.7% in 2012. The crisis in the European debt markets could run beyond the control of policymakers, resulting in a default. That could have negative repercussions throughout the global economies that have exposure to this debt. The risks to the US economy, which has weakened in recent months, include political divisions that leave the course of US policy uncertain, a weak housing market, rapid increases in household savings rates, and deteriorating financial conditions.

Consistent with the IMF's slow growth scenario was the Federal Reserve's latest survey of economic conditions (Beige Book). On November 30, 2011, the Federal Reserve said that economic activity increased but only at a slow to moderate rate of growth in all but one of the Fed's 12 regions. The latest Fed survey was similar to the past few reports since the possibility of a recession was mentioned last August. The Fed said that consumer spending, especially on autos, was the top driver of activity. However, the real estate market continued to be the weakest sector. The survey found that the market for housing remained weak while commercial construction was slow.

Minutes from the Federal Reserve's Open Market Committee meeting in November 2011 indicated that the pace of economic activity strengthened somewhat in the third quarter, however, labor market conditions continued to be weak. The Fed currently projects somewhat slower economic growth than previously projected in June 2011. Real GDP was projected to grow range between 1.6% to 1.8% in 2011 and 2.3% to 3.5% in 2012. This is down from earlier projections ranging from 2.5% to 3.0% in 2011 and 2.2% to 4.0% in 2012.

Market and Competition

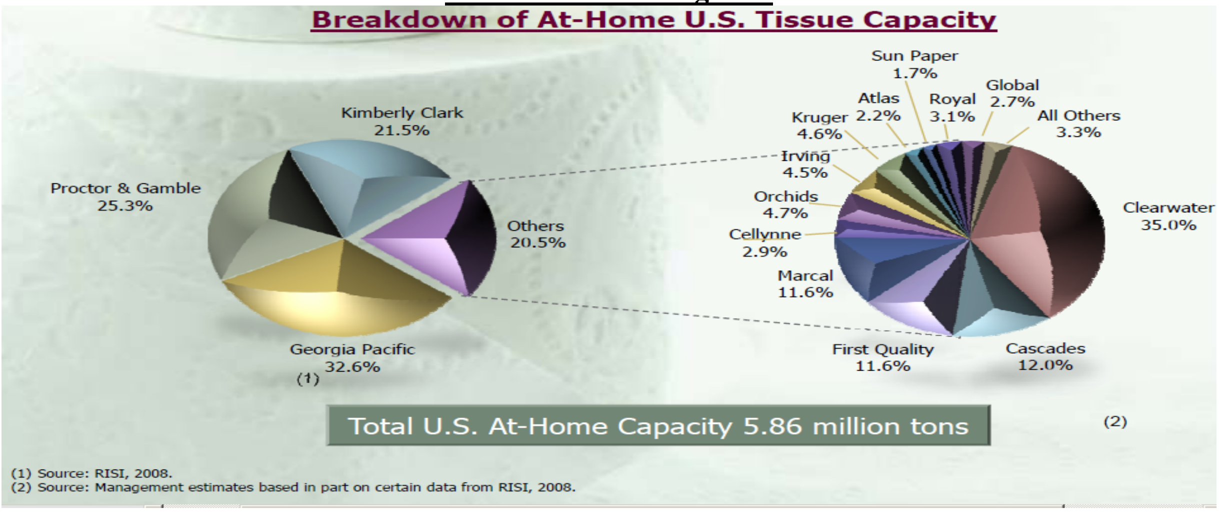
Industry research firm RISI breaks down the North American tissue market as follows: toilet tissue (45% share of North American consumption), toweling (36%), napkins (12%), facial tissue (6%), and other (1%).

Based on the IBISWorlds's projected growth of 2.8% in 2011 for the industry, we project the US tissue market will grow to $4.5 billion in 2011 from $4.4 billion in 2010. While industry revenue has declined over the past few years, IBISWorld projects the overall industry to increase modestly at an average annualized rate of 1.3% from 2011 to 2016.

Dollar and variety stores, Orchids' primary target markets, realized sales of $53.3 billion in 2010. IBISWorld projects dollar and variety stores' revenue growth averaging 2.9% annually from 2011 to 2016.

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' Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant are competitors who have plants in this region. Clearwater Paper also 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 2011 Financial Results

Q3/11 sales of $26.1 million were up 6% from $24.5 million in Q3/10. Net income was $1.6 million or $0.21 per share versus net income of $1.4 million or $0.18 per share.

We estimated Q3/11 sales of $24.2 million and net income of $1.6 million or $0.20 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales in Q3/11 increased 9% to $21.4 million from $19.7 million while parent roll (bulk tissue paper) sales decreased 3% to $4.7 million from $4.9 million. Total tons shipped increased to 14,881 from 14,720, while paper costs increased 12% to approximately $12.7 million from approximately $11.3 million. The overall net selling price per ton increased 5% to $1,755 from $1,666.

The increase in converted product sales in Q3/11 was due to an 8% increase in converted tonnage shipped and a 1% increase in net selling price per ton. Net sales of parent rolls decreased due to an 11% decrease in tonnage shipped partially offset by a 9% increase in net selling prices. The increase in converted product tonnage shipments was primarily due to new product offerings and increased demand from certain customers.

Although the overall selling price per ton increased 5% in Q3/11, gross margins decreased to 15.1% from 16.4% primarily due to higher raw material costs.

Selling, general and administrative (SG&A) expenses in Q3/11 decreased to $1.5 million from $1.6 million primarily due to lower legal and professional fees and decreased stock option expense. Interest expense decreased to $103,000 from $249,000 due to lower debt levels and interest rates.

Sales for the first nine months of 2011 increased 3% to $72.2 million from the comparable period in 2010. Net income was $3.5 million or $0.45 per share, down from net income of $5.0 million or $0.64 per share.

	9mos10	9mos11
Net sales	70,248	72,168
Cost of sales	57,283	61,807
Gross profit	12,965	10,361
SG&A expenses	5,225	4,904
Operating income (loss)	7,740	5,457
Interest expense	675	543
Other (income) expense	(51)	(33)
Income (loss) before taxes	7,116	4,947
Income tax expense (benefit)	2,142	1,483
Net income (loss)	4,974	3,464
Diluted EPS	0.64	0.45
Diluted Shares Outstanding	7,758	7,715
Margin Analysis		
Gross margin	18.5%	14.4%
SG&A expenses	7.4%	6.8%
Operating margin	11.0%	7.6%
Net margin	7.1%	4.8%

Source: Company filings

Converted product sales in the first nine months of 2011 increased 1% to $58.1 million from $57.5 million while parent roll (bulk tissue paper) sales increased 10% to $14.0 million from $12.8 million. Total tons shipped decreased to 42,089 from 42,513, while paper costs increased 9% to approximately $35.2 million from approximately $32.4 million. The overall net selling price per ton increased 4% to $1,715 from $1,652.

The increase in converted product sales in the first nine months of 2011 was due to a 4% increase in selling prices partially offset by a 2% decrease in converted tonnage shipped. The increase in selling prices was primarily the result of a shift in mix and, to a lesser extent, decreased promotional pricing. The decrease in converted product shipments was primarily due to softer demand from certain customers. Net sales of parent rolls increased due to an 8% increase in selling prices and a 2% increase in tonnage shipped. A strengthening parent roll market and higher market prices stemming from higher waste paper costs resulted in higher net selling prices.

Although the overall selling price per ton increased 4% in the first nine months of 2011, gross margins decreased to 14.4% from 18.5% due to higher raw material costs and higher depreciation expense.

Selling, general and administrative (SG&A) expenses in the first nine months of 2011 decreased to $4.9 million from $5.2 million primarily due to decreased stock compensation expense, lower legal and professional fees, and lower sales commissions. Interest expense decreased to $0.5 million from $0.7 million due to lower debt levels and interest rates.

Liquidity

Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2012. As of September 30, 2011, Orchids' cash balance was $2.5 million and short term investments totaled $2.0 million. Orchids has a debt/equity ratio of 0.2 versus 0.9 for the paper products industry.

Cash earnings of $10.0 million and a $0.6 million decrease in working capital resulted in $10.6 million cash from operations in the first nine months of 2011. The changes in working capital were primarily driven by a $2.7 million decrease in taxes receivable and a $1.0 million increase in accrued liabilities, offset in part by a $1.8 million increase in accounts receivable and a $1.0 million decrease in accounts payable.

The company received proceeds from the sale of investment securities of $7.5 million which was partially offset by capital expenditures of $3.9 million resulting in $3.6 million cash from investing. A net reduction in debt of $9.7 million and $2.2 million dividend payments partially offset cash from operations of $10.6 million and cash from investing of $3.6 million resulting in a $2.3 million increase in cash to $2.5 million at the end of Q3/11.

Credit Facility

In April 2011, Orchids paid off the remaining unmatured loans under its existing credit facility which totaled $17.5 million and entered into a new $36 million credit agreement with JP Morgan Chase consisting of: an $18.0 million revolving credit line (due April 2014); ($0.0 million outstanding at September 30, 2011); a $10.8 million real estate term loan with a ten-year term (due April 2021) and amortized as if it had a 25-year life ($10.7 million outstanding at September 30, 2011); and a $7.2 million machinery and equipment term loan with a seven-year term (due April 2018) ($7.0 million outstanding at September 30, 2011).

All loans have a floating interest rate of either the prime rate plus 25 to minus 50 basis points, or LIBOR plus 175 to 265 basis points (based on the ratio of funded debt to EBITDA), depending on the company's discretion. The credit agreement contains covenants that require Orchids to maintain a specific funded-debt-to EBITDA ratio, fixed charge coverage ratio, and a quarterly tangible net worth. As of September 30, 2011, the company was in compliance with these covenants.

Recent Developments

On November 9, 2011, the board of directors of Orchids Paper Products Company announced it approved an increase in its quarterly cash dividend to $0.20 per share from $0.10 per share. The increase will be effective for the dividend payable on December 21, 2011, to shareholders of record at the close of business on December 5, 2011.

Projections

We project a 7% increase in converted product sales in 2012 as there should be a full year's contribution from the orders for 700,000 cases annually (we estimated approximately ½ that amount for 2011). Although waste paper prices are high, we do not see them increasing from current levels given the struggling economy. However, we believe China's strong demand for waste paper should also keep prices from falling. In September 2011, the IMF said that expectations are for China's growth to remain robust in 2011 and 2012 (9.5% in 2011 and 9.0% in 2012), however, on November 29, 2011, the Wall Street Journal reported that the Organization for Economic Cooperation and Development projected Chinese economic growth would ease to 8.5% in 2012 from 9.3% this year.

Orchids' year-to-date results show close to 60% of this year's cost of sales as being variable (cost of paper). That means margins can change significantly with minor changes in paper costs. We ran a sensitivity analysis to see how gross margins would be affected by a 5% change in variable costs while keeping fixed costs constant (at approximately $35 million). The table below shows the magnitude of these changes.

Sensitivity Analysis from 5% Change in Variable Costs

	UNCH 2011E	5% INC 2011E	5% DEC 2011E	UNCH 2012E	5% INC 2012E	5% DEC 2012E
Net sales	98,268	98,268	98,268	104,500	104,500	104,500
Cost of sales	83,966	86,385	81,447	87,518	91,894	83,142
Gross profit	14,302	11,883	16,821	16,982	12,606	21,358
Gross margin	14.6%	12.1%	17.1%	16.3%	12.1%	20.4%

Source: Taglich Brothers estimates

We believe that with no further increases in variable costs, the current level of fixed costs should leave room for margin improvement as increased volumes of higher margin converted products should improve manufacturing overhead coverage. However, with the effect of Q1/11's low gross margins of 11.9%, we project FY2011 total gross margins of 14.6%. We project further increases in converted product selling prices (discussed on next page) combined with the 2,800 ton increase in higher margin converted product sales should support a 16.3% total gross margin in 2012.

Our revenue and gross margin projections through 2012 are shown below.

Approximate tons shipped, selling prices/ton, revenue, COGS and margins (est)

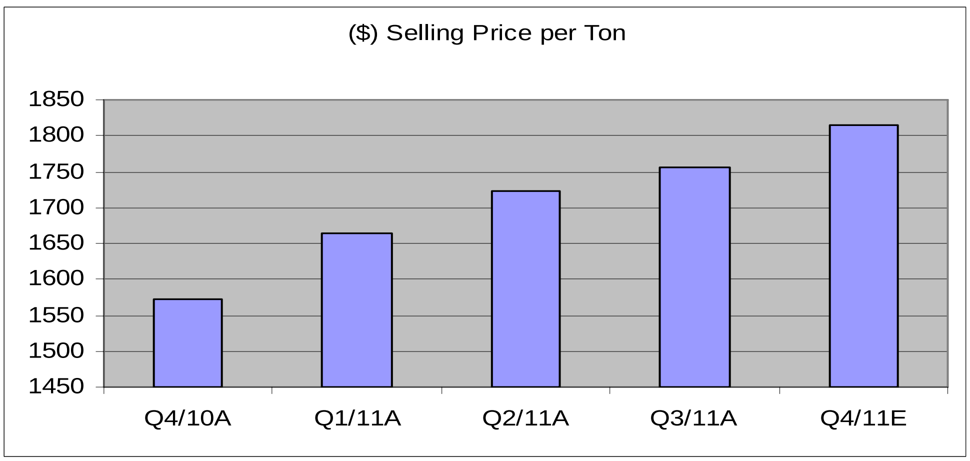
2011

	Tons Shipped	Selling Price/Ton	Revenue	COGS	COGS/Ton	Gross Profit	GM
Converted	38,200	$ 2,125	$ 81,175,000	$ 68,187,000	$ 1,785	$ 12,988,000	16.0%
Parent Roll	18,300	$ 935	$ 17,110,500	$ 15,738,000	$ 860	$ 1,372,500	8.0%
Total	56,500	$ 1,740	$ 98,285,500	$ 83,925,000	$ 1,485	$ 14,360,500	14.6%

2012

	Tons Shipped	Selling Price/Ton	Revenue	COGS	COGS/Ton	Gross Profit	GM
Converted	41,000	$ 2,170	$ 88,970,000	$ 73,185,000	$ 1,785	$ 15,785,000	17.7%
Parent Roll	16,000	$ 970	$ 15,520,000	$ 14,320,000	$ 895	$ 1,200,000	7.7%
Total	57,000	$ 1,833	$ 104,490,000	$ 87,505,000	$ 1,535	$ 16,985,000	16.3%

We believe the height of competitive pricing was in Q4/10 when Orchids' average selling price hit a low of $1,573 per ton. Since then, Orchids has been able to increase selling prices sequentially by an average of approximately 4% per quarter.



Source: Orchids Paper Products filings and Taglich Brothers estimates

In the first nine months of 2011, Orchids has increased selling prices of converted products by 4% and parent rolls by 8%. Part of the reason for the increase in prices has been decreased promotional pricing of converted products by competitors. We believe weak economic conditions will slow Orchids' rate of price increases in 2012 and project a 2% increase in converted product prices and a 4% increase in parent roll prices.

We project 2011 revenue of $98.3 million and net income of $5.1 million or $0.66 per diluted share. We previously projected 2011 revenue $94.8 million and net income of $5.1 million or $0.66 per diluted share. The change in our estimates is due to better than expected sales and lower than expected gross in the first nine months of 2011.

Our 2011 estimates are based on increasing converted product sales. Orchids announced that it received firm orders for approximately 0.7 million cases on an annual basis after the product was "tested" on customers shelves. This represents an increase in converted product shipments of approximately 12% annually based on the 5.8 million cases that were manufactured in 2010. Shipping on these orders did not start until June 2011 with future shipments expected to be greater in subsequent quarters. Also, the company effectively doubled (from 4 to 8) its sales force in Q2/11 by hiring a sales and marketing organization with expertise in mid-tier to upper-tier marketing and sales in the at-home tissue market.

We project the company will continue to keep its SG&A expenses under control (6.5% of sales) in 2011. The tax rate is estimated at 30% based on the current effective tax rate. Days sales outstanding and inventory turnover are projected to remain at 24 and 10 respectively.

For 2011 we project cash earnings of $14.7 million. A reduction in working capital of $3.5 million primarily due to reduced income taxes receivable will result in cash from operations of approximately $18.2 million. Cash from operations and $7.5 million proceeds from the sale of investment securities will cover capital expenditures of $5.0 million, a $12.1 million net pay down of debt, and $3.8 million in dividends. These items should result in a $4.9 million net increase in cash to $5.1 million.

We project 2012 revenue of $104.5 million and net income of $7.1 million or $0.92 per diluted share. We previously projected 2012 revenue of $98.2 million and net income of $6.9 million or $0.89 per diluted share. Our 2012 estimates are based on higher margin converted product sales growth. The company recently secured new converted product business despite ongoing competitive pressures. Also, the doubling of its sales force should help to expand converted product sales. Due to the continuing high cost of waste paper, we have lowered gross margins to 16.3% (previously 17.0%).

SG&A expenses are projected to increase to $6.5 million in 2012 (of which approximately 18% or $1.2 million of SG&A expenses are commission related). The commission component in SG&A expenses should increase to some degree as sales increase. The tax rate is estimated at 30% based on the current effective tax rate. Days sales outstanding and inventory turnover are projected to remain at 24 and 10 respectively.

For 2012 we are projecting cash earnings of $15.7 million. A $0.6 million increase in working capital primarily due to increased accounts receivable and inventories, should result in cash from operations of approximately $15.0 million. Cash from operations should cover $3.8 million of capital expenditures, a $5.0 million net pay down of debt, and $6.0 million in dividends, increasing cash by $282,000 to $5.3 million.

Risks

Customer concentration

Three customers (Dollar General, Family Dollar, and Wal-Mart) accounted for approximately 66% of converted product sales in 2010. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition

Competitors have penetrated Orchids' operating region. More intense competition in the company's focused region has reduced some of its competitive cost advantages and lowered margins due to pressure on selling prices.

Orchids may 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 with current bargaining agreements set to expire in June 2012 (converting facility workers) and February 2015 (paper mill workers). 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

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

Microcap stocks typically have small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 5.1 million shares in the float with an average daily volume of approximately 9,000 shares.

Miscellaneous risks

The company's financial results and equity values are subject to other risks, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	2008A	2009A	2010A	9/11A	2011E	2012E
Cash	11	1,232	142	2,489	5,050	5,331
Accounts receivable	6,514	6,750	6,155	7,950	6,539	6,953
Inventories	6,253	7,569	7,595	7,721	8,309	8,660
Short term investments	-	18,509	9,518	2,018	2,018	2,018
Income taxes receivable	-	-	3,952	-	-	-
Prepaid expenses	399	497	538	694	572	608
Deferred income taxes	557	547	790	2,067	697	969
Total current assets	13,734	35,104	28,690	22,939	23,184	24,540
Property, plant and equipment	60,659	72,691	93,805	92,439	91,705	88,455
Deferred debt issuance costs	89	104	76	56	56	56
Total Assets	**74,482**	**107,899**	**122,571**	**115,434**	**114,945**	**113,051**
Accounts payable	4,699	4,049	5,250	4,238	5,743	5,986
Accrued liabilities	2,584	3,118	2,269	3,263	2,410	2,563
Current portion of long-term debt	2,998	3,742	10,742	1,152	1,152	1,152
Total current liabilities	10,281	10,909	18,261	8,653	9,306	9,702
Long-term debt	21,067	19,533	16,615	16,519	14,100	9,100
Deferred income taxes	9,572	14,337	18,099	19,078	20,000	21,000
Total liabilities	**40,920**	**44,779**	**52,975**	**44,250**	**43,406**	**39,802**
Total stockholders' equity	**33,562**	**63,120**	**69,596**	**71,184**	**71,539**	**73,249**
Total liabilities & stockholders' equity	**74,482**	**107,899**	**122,571**	**115,434**	**114,945**	**113,051**

Source: Company filings and Taglich Brothers' estimates

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

	2008A	2009A	2010A	2011E	2012E
Net sales	90,202	95,963	92,504	98,268	104,500
Cost of sales	75,196	67,936	76,752	83,966	87,518
Gross profit	15,006	28,027	15,752	14,302	16,982
SG&A expenses	6,259	7,343	6,618	6,414	6,500
Operating income (loss)	8,747	20,684	9,134	7,888	10,482
Interest expense	1,361	692	934	643	400
Other (income) expense	(10)	(24)	(65)	(48)	(60)
Income (loss) before taxes	7,396	20,016	8,265	7,293	10,142
Income tax expense (benefit)	2,205	6,464	2,351	2,187	3,044
Net income (loss)	5,191	13,552	5,914	5,106	7,098
EPS	0.79	1.89	0.76	0.66	0.92
Shares Outstanding	6,542	7,177	7,755	7,723	7,740
Margin Analysis					
Gross margin	16.6%	29.2%	17.0%	14.6%	16.3%
SG&A expenses	6.9%	7.7%	7.2%	6.5%	6.2%
Operating margin	9.7%	21.6%	9.9%	8.0%	10.0%
Net margin	5.8%	14.1%	6.4%	5.2%	6.8%
Year / Year Growth					
Total Revenues	20.8%	6.4%	(3.6%)	6.2%	6.3%
Net Income	99.8%	161.1%	(56.4%)	(13.7%)	39.0%
EPS	97.5%	138.0%	(59.6%)	(13.3%)	38.7%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2010, 2011, and 2012
(in thousands $)

	3/10A	6/10A	9/10A	12/10A	2010A	3/11A	6/11A	9/11A	12/11E	2011E	3/12E	6/12E	9/12E	12/12E	2012E
Net sales	21,040	24,685	24,523	22,256	92,504	22,675	23,383	26,110	26,100	98,268	26,050	26,100	26,150	26,200	104,500
Cost of sales	17,179	19,610	20,494	19,469	76,752	19,967	19,666	22,174	22,159	83,966	21,960	21,898	21,835	21,825	87,518
Gross profit	3,861	5,075	4,029	2,787	15,752	2,708	3,717	3,936	3,941	14,302	4,090	4,202	4,315	4,375	16,982
SG&A expenses	1,735	1,841	1,649	1,393	6,618	1,580	1,816	1,508	1,510	6,414	1,625	1,625	1,625	1,625	6,500
Operating income (loss)	2,126	3,234	2,380	1,394	9,134	1,128	1,901	2,428	2,431	7,888	2,465	2,577	2,690	2,750	10,482
Interest expense	215	211	249	259	934	249	191	103	100	643	100	100	100	100	400
Other (income) expense	(14)	(13)	(24)	(14)	(65)	(9)	(7)	(17)	(15)	(48)	(15)	(15)	(15)	(15)	(60)
Income (loss) before taxes	1,925	3,036	2,155	1,149	8,265	888	1,717	2,342	2,346	7,293	2,380	2,492	2,605	2,665	10,142
Income tax expense (benefit)	565	864	713	209	2,351	268	520	695	704	2,187	714	748	782	800	3,044
Net income (loss)	1,360	2,172	1,442	940	5,914	620	1,197	1,647	1,642	5,106	1,666	1,744	1,823	1,865	7,098
EPS	0.18	0.28	0.18	0.12	0.76	0.08	0.16	0.21	0.21	0.66	0.22	0.23	0.24	0.24	0.92
Shares Outstanding	7,729	7,768	7,762	7,742	7,755	7,713	7,706	7,733	7,740	7,723	7,740	7,740	7,740	7,740	7,740
Margin Analysis															
Gross margin	18.4%	20.6%	16.4%	12.5%	17.0%	11.9%	15.9%	15.1%	15.1%	14.6%	15.7%	16.1%	16.5%	16.7%	16.3%
SG&A expenses	8.2%	7.5%	6.7%	6.3%	7.2%	7.0%	7.8%	5.8%	5.8%	6.5%	6.2%	6.2%	6.2%	6.2%	6.2%
Operating margin	10.1%	13.1%	9.7%	6.3%	9.9%	5.0%	8.1%	9.3%	9.3%	8.0%	9.5%	9.9%	10.3%	10.5%	10.0%
Net margin	6.5%	8.8%	5.9%	4.2%	6.4%	2.7%	5.1%	6.3%	6.3%	5.2%	6.4%	6.7%	7.0%	7.1%	6.8%
Year / Year Growth															
Total Revenues	(11.0%)	2.3%	(0.1%)	(5.8%)	(3.6%)	7.8%	(5.3%)	6.5%	17.3%	6.2%	14.9%	11.6%	0.2%	0.4%	6.3%
Net Income	(51.4%)	(42.5%)	(62.2%)	(70.3%)	(56.4%)	(54.4%)	(44.9%)	14.2%	74.7%	(13.7%)	168.7%	45.7%	10.7%	13.6%	39.0%
EPS	(58.0%)	(49.0%)	(65.5%)	(70.0%)	(59.6%)	(54.3%)	(44.4%)	18.3%	74.7%	(13.3%)	167.7%	45.1%	10.6%	13.6%	38.7%

Source: Company filings and Taglich Brothers' estimates

Orchids Paper Products Company

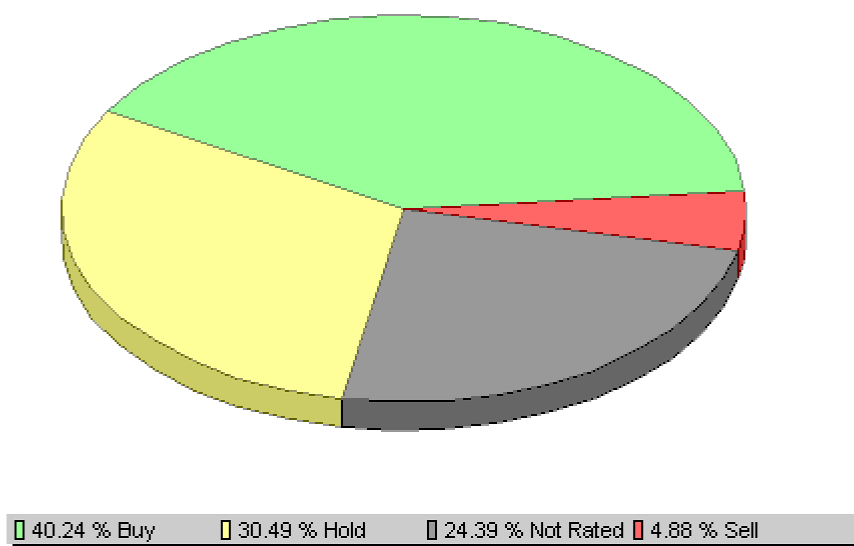
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2008A	2009A	2010A	9mos11A	2011E	2012E
Net income(loss)	5,191	13,552	5,914	3,464	5,106	7,098
Depreciation and amortization	3,156	3,708	5,725	5,333	7,100	7,000
Provision for doubful accounts	87	60	(34)	-	-	-
Deferred income taxes	2,145	4,774	3,519	979	1,901	1,000
Stock based compensation	313	603	562	268	588	612
Changes in assets and liabilities						
Accounts receivable	(1,074)	(296)	629	(1,795)	(384)	(415)
Inventories	(1,379)	(1,316)	(26)	(126)	(714)	(351)
Prepaid expenses	(18)	(98)	(41)	(156)	(34)	(36)
Income taxes receivable	24	-	(3,952)	2,675	4,045	(272)
Accounts payable	(61)	(650)	1,201	(1,012)	493	243
Acrrued liabilities	124	535	(849)	994	141	153
Net Cash Provided by (Used in) Operations	**8,508**	**20,872**	**12,648**	**10,624**	**18,244**	**15,032**
Proceeds from the sale of investment securities	-	3,993	8,991	7,500	7,500	-
Purchase of investment securities	-	(22,502)	-	-	-	-
Purchase of property and equipment	(6,926)	(15,711)	(26,786)	(3,888)	(5,000)	(3,750)
Net Cash Provided by (Used in) Investing	**(6,926)**	**(34,220)**	**(17,795)**	**3,612**	**2,500**	**(3,750)**
Proceeds from issuance of stock	-	14,847	-	-	-	-
Borrowings under construction loan	-	3,756	5,197	-	-	-
Repayments on construction loan	-	-	-	-	-	-
Borrowings on long-term debt	-	-	-	18,021	18,000	-
Principal payments on long-term debt	(2,286)	(3,059)	(3,787)	(1,718)	(4,066)	(5,000)
Repayment of long-term debt at maturity	-	-	-	(5,878)	(5,878)	-
Repayment of long-term debt prior to maturity	-	-	-	(17,439)	(17,439)	-
Net borrowings (repayments) on revolving credit line	696	(1,487)	2,672	(2,672)	(2,672)	-
Proceeds from the exercise of warrants attached to debentures	16	286	-	-	-	-
Proceeds from the exercise of stock options		269	-	98	19	-
Excess tax benefit of stock options exercised	-	-	-	5	5	-
Deferred debt issuance cost	-	(43)	(25)	(59)	(55)	-
Dividends paid	-	-	-	(2,247)	(3,750)	(6,000)
Net Cash Provided by (Used in) Financing	**(1,574)**	**14,569**	**4,057**	**(11,889)**	**(15,836)**	**(11,000)**
Net Change in Cash	**8**	**1,221**	**(1,090)**	**2,347**	**4,908**	**282**
Cash - Beginning of Period	**3**	**11**	**1,232**	**142**	**142**	**5,050**
Cash - End of Period	**11**	**1,232**	**142**	**2,489**	**5,050**	**5,331**
Cash Flow from Operations	8,508	20,872	12,648	10,624	18,244	15,032
Capital Expenditures	(6,926)	(15,711)	(26,786)	(3,888)	(5,000)	(3,750)
Free Cash Flow	1,582	5,161	(14,138)	6,736	13,244	11,282

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		
Hold	None	
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of TIS common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 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 10,362 shares of TIS common stock. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

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

General Disclosures

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

Cascades (OTC PK: CADNF)
Clearwater Paper (NYSE: CLW)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Dropping Coverage

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

Some notable Risks within the Microcap Market

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

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.