

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2017**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number **001-32563**

Orchids Paper Products Company

(Exact name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

23-2956944
(I.R.S. Employer
Identification No.)

4826 Hunt Street
Pryor, Oklahoma 74361
(Address of Principal Executive Offices and Zip Code)

(918) 825-0616
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of the issuer's Common Stock, par value \$.001 per share, as of April 28, 2017: 10,302,891 shares.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
TABLE OF CONTENTS
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2017

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets as of March 31, 2017 (Unaudited) and December 31, 2016</u>	3
<u>Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016 (Unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 (Unaudited)</u>	5
<u>Notes to Unaudited Consolidated Interim Financial Statements</u>	7
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	31
ITEM 4. <u>Controls and Procedures</u>	31
<u>PART II. OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	31
ITEM 1A. <u>Risk Factors</u>	32
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
ITEM 3. <u>Defaults Upon Senior Securities</u>	33
ITEM 4. <u>Mine Safety Disclosures</u>	33
ITEM 5. <u>Other Information</u>	33
ITEM 6. <u>Exhibits</u>	33
<u>Signatures</u>	34

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

**ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)**

	<u>March 31, 2017</u> (Unaudited)	<u>December 31, 2016</u>
ASSETS		
Current assets:		
Cash	\$ 5,777	\$ 8,750
Accounts receivable, net of allowance of \$50 and \$30, respectively	10,494	8,954
Receivables from related party	1,343	491
Inventories, net	18,262	18,414
Income taxes receivable	11,840	8,735
Prepaid expenses	659	925
Other current assets	911	868
Total current assets	<u>49,286</u>	<u>47,137</u>
Property, plant and equipment (including from consolidated VIE \$16,237 and \$16,237, respectively)	351,560	320,442
Accumulated depreciation	<u>(74,483)</u>	<u>(71,258)</u>
Net property, plant and equipment	277,077	249,184
Restricted cash (from consolidated VIE)	1,300	1,276
VAT receivable	223	212
Intangible assets, net of accumulated amortization	14,278	14,511
Goodwill	7,560	7,560
Total assets	<u>\$ 349,724</u>	<u>\$ 319,880</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 21,675	\$ 7,739
Accounts payable to related party	3,879	3,130
Accrued liabilities	2,306	2,545
Dividends payable	3,607	-
Current portion of long-term debt	<u>8,511</u>	<u>6,728</u>
Total current liabilities	39,978	20,142
Long-term debt including capital leases, less current portion	143,754	133,989
Other long-term liabilities (from consolidated VIE)	5,188	5,170
Deferred income taxes	31,902	27,334
Commitment and contingencies (Note 4)		
Stockholders' equity:		
Common stock, \$.001 par value, 25,000,000 shares authorized, 10,302,891 and 10,296,891 shares issued and outstanding in 2017 and 2016, respectively	10	10
Additional paid-in capital	99,009	98,885
Retained earnings	29,883	34,350
Total stockholders' equity	<u>128,902</u>	<u>133,245</u>
Total liabilities and stockholders' equity	<u>\$ 349,724</u>	<u>\$ 319,880</u>

See notes to unaudited consolidated interim financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2017	2016
	(Unaudited)	
Net sales	\$ 35,354	\$ 47,743
Cost of sales	<u>33,385</u>	<u>36,362</u>
Gross profit	1,969	11,381
Selling, general and administrative expenses	2,619	2,722
Intangibles amortization	<u>233</u>	<u>377</u>
Operating (loss) income	(883)	8,282
Interest expense	517	263
Other income, net	<u>(167)</u>	<u>(201)</u>
(Loss) income before income taxes	(1,233)	8,220
Provision for (benefit from) income taxes:		
Current	(5,371)	2,832
Deferred	<u>4,998</u>	<u>(21)</u>
	<u>(373)</u>	<u>2,811</u>
Net (loss) income	<u>\$ (860)</u>	<u>\$ 5,409</u>
Net (loss) income per common share:		
Basic	\$ (0.08)	\$ 0.53
Diluted	\$ (0.08)	\$ 0.52
Weighted average common shares used in calculating net income per common share:		
Basic	10,301,308	10,272,155
Diluted	10,350,427	10,343,086
Cash dividends declared per share	\$ 0.35	\$ 0.35

See notes to unaudited consolidated interim financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2017	2016
	(Unaudited)	
Cash Flows From Operating Activities		
Net (loss) income	\$ (860)	\$ 5,409
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,550	3,091
Provision for doubtful accounts	20	-
Deferred income taxes	4,568	(21)
Stock compensation expense	98	149
Changes in cash due to changes in operating assets and liabilities:		
Accounts receivable	(2,412)	(1,461)
Inventories	152	(284)
Income taxes receivable	(3,105)	-
Prepaid expenses	266	(385)
Other assets	(54)	(674)
Accounts payable	1,629	(975)
Accrued liabilities	(239)	4,014
Net cash provided by operating activities	<u>3,613</u>	<u>8,863</u>
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(18,027)	(25,575)
Decrease (increase) in restricted cash	(24)	4,790
Net cash used in investing activities	<u>(18,051)</u>	<u>(20,785)</u>
Cash Flows From Financing Activities		
Proceeds from economic incentive	-	1,900
Principal payments on long-term debt	(1,139)	(675)
Net borrowings on revolving credit line	12,787	17,987
Net proceeds from follow-on stock offering	(35)	-
Dividends paid to stockholders	-	(3,596)
Proceeds from the exercise of stock options	61	49
Excess tax benefit of stock options exercised	-	36
Deferred debt issuance costs	(209)	(101)
Net cash provided by financing activities	<u>11,465</u>	<u>15,600</u>
Net increase (decrease) in cash	(2,973)	3,678
Cash, beginning	<u>8,750</u>	<u>4,361</u>
Cash, ending	<u>\$ 5,777</u>	<u>\$ 8,039</u>

See notes to unaudited consolidated interim financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands)

	Three Months Ended March 31,	
	2017	2016
	(Unaudited)	
Supplemental Disclosure:		
Interest paid	\$ 1,181	\$ 386
Income taxes refunded, net	\$ (1,872)	\$ -
Tax benefits realized from stock options exercised	\$ 36	\$ 43
Capital expenditures invoiced but not yet paid	\$ 13,325	\$ -

See notes to unaudited consolidated interim financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

Orchids Paper Products Company and its subsidiaries (collectively, “Orchids” or the “Company”) produce bulk tissue paper, known as parent rolls, and convert parent rolls into finished products, including paper towels, bathroom tissue and paper napkins. The Company predominately sells its products for use in the “at home” market under private labels to a customer base consisting primarily of dollar stores, discount retailers and grocery stores that offer limited alternatives across a wide range of products, and, to a lesser extent, the “away from home” market. The Company has owned and operated its manufacturing facility in Pryor, Oklahoma since 1998. On June 3, 2014, the Company completed the acquisition of certain assets from Fabrica de Papel San Francisco, S.A. de C.V. (“Fabrica”) pursuant to an asset purchase agreement (see Note 2). In connection with the acquisition of these assets, the Company formed three wholly-owned subsidiaries: Orchids Mexico DE Holdings, LLC, Orchids Mexico DE Member, LLC, and OPP Acquisition Mexico, S. de R.L. de C.V (“Orchids Mexico”). In April 2015, the Company announced the construction of a new manufacturing facility in Barnwell, South Carolina. In conjunction with this project, the Company established a wholly-owned subsidiary: Orchids Paper Products Company of South Carolina. Furthermore, in connection with a New Market Tax Credit (“NMTC”) transaction in December 2015 (see Note 12), the Company created Orchids Lessor SC, LLC, another wholly-owned subsidiary. The accompanying consolidated financial statements include the accounts of Orchids and these wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company’s common stock trades on the NYSE MKT under the ticker symbol “TIS.”

The accompanying financial statements have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted (“GAAP”) in the United States have been condensed or omitted pursuant to the rules and regulations. However, the Company believes that the disclosures made are adequate to make the information presented not misleading when read in conjunction with the audited financial statements and the notes in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 15, 2017, as amended by the Company’s Amendment No. 1 to its Annual Report on Form 10-K/A, filed with the SEC on March 30, 2017. Management believes that the financial statements contain all adjustments necessary for a fair presentation of the results for the interim periods presented. All adjustments were of a normal, recurring nature. The results of operations for the interim period are not necessarily indicative of the results for the entire fiscal year.

Note 2 — Related Party Transactions and Fabrica

On May 5, 2014, Orchids Paper Products Company and its wholly owned subsidiary, Orchids Mexico, entered into an asset purchase agreement (“APA”) with Fabrica to acquire certain assets and 100% of the U.S. business of Fabrica. On June 3, 2014, the Company closed on the transaction set forth in the APA, and in connection therewith, entered into a supply agreement (“Supply Agreement”) and a lease agreement (“Equipment Lease Agreement”) (collectively, the “Fabrica Transaction”).

The Company entered into the following transactions with Fabrica during the three-month periods ended March 31:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Products purchased under the Supply Agreement.	\$ 6,383	\$ 9,005
Amounts billed to Fabrica under the Equipment Lease Agreement.	\$ 464	\$ 521
Parent rolls purchased by Fabrica	\$ 915	\$ 867

Goodwill

There were no changes to the \$7.6 million goodwill recognized from the Fabrica Transaction during the three-month periods ended March 31, 2017 and 2016. No goodwill impairment has been recorded as of March 31, 2017.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 3 — Fair Value Measurements

The Company does not report any assets or liabilities at fair value in the financial statements. However, the fair value of the Company's long-term debt is estimated by management to approximate the carrying value (before deducting unamortized debt issuance costs) of \$153.6 million and \$142.0 million at March 31, 2017 and December 31, 2016, respectively. Management's estimates are based on periodic comparisons of the characteristics of the Company's obligations, including floating interest rates, credit rating, maturity and collateral, to current market conditions as stated by an independent third-party financial institution. Such valuation inputs are considered a Level 2 measurement in the fair value valuation hierarchy.

Note 4 — Commitments and Contingencies

The Company may be involved from time to time in litigation arising from the normal course of business. In management's opinion, as of the date of this report, the Company is not engaged in legal proceedings which individually or in the aggregate are expected to have a materially adverse effect on the Company's results of operations or financial condition.

Gas purchase commitments

The Company has entered into a natural gas fixed price contract to purchase natural gas, which provides approximately 80% to 90% of the natural gas requirements at Pryor through December 31, 2017. Remaining commitments under this contract are as follows:

Period		MMBTUs	Price per MMBTU
April 2017	- June 2017	117,050	\$ 4.06
July 2017	- September 2017	118,550	\$ 4.06
October 2017	- December 2017	117,055	\$ 4.06

Purchases under the gas contract were \$0.5 million and \$0.4 million for the three-months periods ended March 31, 2017 and 2016, respectively. If the Company is unable to purchase the contracted amounts and the market price at that time is less than the contracted price, the Company would be obligated under the terms of the agreement to reimburse an amount equal to the difference between the contracted amount and the amount actually purchased, multiplied by the difference between the contract price and a price designated in the contract (approximates spot price).

In the second quarter of 2015, the Company began construction on an integrated paper converting facility in Barnwell, South Carolina. As of March 31, 2017, obligations under these purchase orders totaled \$1.1 million.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 5 — Inventories

Inventories at March 31, 2017 and December 31, 2016 were as follows:

	March 31, 2017	December 31, 2016
	(In thousands)	
Raw materials.	\$ 4,633	\$ 4,855
Bulk paper rolls..	4,160	3,765
Converted finished goods	9,774	9,859
Inventory valuation reserve.	(305)	(65)
	<u>\$ 18,262</u>	<u>\$ 18,414</u>

Note 6 — Property, Plant and Equipment

Property, plant and equipment at March 31, 2017 and December 31, 2016 was:

	March 31, 2017	December 31, 2016
	(In thousands)	
Land	\$ 1,316	\$ 1,316
Buildings and improvements	37,356	37,356
Machinery and equipment.	186,902	186,863
Vehicles	1,830	1,830
Nondepreciable machinery and equipment (parts and spares).	11,890	11,976
Construction-in-process	112,266	81,101
	<u>\$ 351,560</u>	<u>\$ 320,442</u>

In January 2016, the Company received \$1.9 million of proceeds from an economic incentive related to the construction of the South Carolina facility. While there currently are no US GAAP pronouncements relating to the accounting treatment of government grants, the Company recorded these proceeds as a reduction in the property, plant and equipment related to this project in accordance with non-authoritative guidance issued by the American Institute of Certified Public Accountants, which recommended that grants related to developing property be recognized over the useful lives of the assets by recognizing receipt as the related asset is depreciated.

Interest expense for three months ended March 31, 2017 and 2016, excludes \$730,000 and \$134,000, respectively, of interest capitalized on significant projects during the quarter.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 7 — Long-Term Debt and Revolving Line of Credit

In April 2015, the Company amended its credit facility with U.S. Bank National Association (“U.S. Bank”) to add \$40 million of borrowing capacity under a delayed draw term loan. In June 2015, the Company entered into Amendment No. 2 to obtain additional borrowing capacity. This amendment combined \$20.0 million outstanding under an existing revolving line of credit and \$27.3 million outstanding under an existing term loan into a \$47.3 million term loan, increased the delayed draw facility from \$40 million to \$115 million, extended the maturity of the delayed draw facility from August 2015 to June 2020 and added a \$50 million accordion feature. Proceeds from the delayed draw term loan must be used solely to finance the purchase and installation of new equipment and construction at our South Carolina facility. In January 2017, the Company entered into Amendment No. 3, which increased the total loan commitment, modified the pricing grid applicable to interest rates and the unused commitment fee, amended the financial covenant related to the maintenance of a maximum total leverage ratio by increasing the permitted total leverage ratio for fiscal quarters ending on or prior to March 31, 2018, and amended the terms of the draw loan to provide for additional advance amounts available to the Company for the purposes of acquiring or improving real estate. Additionally, in April 2017, the Company entered into Amendment No. 4 which waived the permitted total leverage ratio for the first two quarters of 2017 and increased the permitted total leverage ratio for the last two quarters of 2017, lowered the required fixed charge coverage ratio for the second and third quarters of 2017, and extended the period during which funds may be drawn under the delayed draw loan to December 25, 2017. The terms of the Credit Agreement, as amended, consist of the following:

- a \$25.0 million revolving credit line due June 2020;
- a \$47.3 million Term Loan with a 5-year term due June 2020 and payable in quarterly installments of \$675,000 through June 2016 and \$1.0 million per quarter thereafter;
- a \$115.0 million delayed draw term loan with a 2-year draw period due June 2020 and payable in quarterly installments beginning in September 2017 of 1.5% of the outstanding balance as of defined measurement dates through the extended draw period ending December 25, 2017. The maximum borrowing capacity was reduced from \$115.0 million to \$99.6 million in December 2015, in connection with the NMTC transaction (see Note 12), and was increased to \$108.5 million in January 2017 under the terms of Amendment No. 3; and
- an accordion feature allowing the revolving credit line and/or delayed draw commitment under the Credit Agreement to be increased by up to \$50.0 million at any time on or before the expiration date of the Credit Agreement.

Proceeds from the delayed draw term loan must be utilized solely to finance the purchase and installation of new equipment and construction at the Company’s Barnwell, South Carolina facility.

Under the terms of the Credit Agreement, as amended, amounts outstanding will bear interest at a variable rate of LIBOR plus a specified margin, or the base rate plus a specified margin, at the Company’s option. The specified margin is based on the Company’s quarterly Leverage Ratio, as defined in the Credit Agreement, as amended. The following table outlines the specified margins and the commitment fees payable under the Credit Agreement:

Leverage Ratio	LIBOR Margin	Base Margin	Commitment Fee
Less than 1.00	1.25%	0.00%	0.15%
Greater than or equal to 1.00 but less than 2.00	1.50%	0.00%	0.20%
Greater than or equal to 2.00 but less than 3.00	1.75%	0.00%	0.25%
Greater than or equal to 3.00 but less than 3.50	2.25%	0.00%	0.30%
Greater than or equal to 3.50 but less than 4.00	2.50%	0.25%	0.35%
Greater than or equal to 4.00 but less than 4.50	3.00%	0.75%	0.40%
Greater than or equal to 4.50 but less than 5.00	3.50%	1.25%	0.45%
Greater than or equal to 5.00	4.00%	1.75%	0.50%

Additionally, in connection with the NMTC transaction, the Company entered into an \$11.1 million term loan with U.S. Bank. This loan bears interest at a fixed rate of 4.4% and matures on December 29, 2022. The loan requires quarterly payments of principal and interest of approximately \$255,000, beginning in March 2016, with a balloon payment due on the maturity date.

As of March 31, 2017, the Company’s weighted-average interest rate was 3.51%.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 7 — Long-Term Debt and Revolving Line of Credit (continued)

Long-term debt at March 31, 2017 and December 31, 2016 consists of:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<u>(In thousands)</u>	<u>(in thousands)</u>
Revolving line of credit, maturing on June 25, 2020	\$ 13,846	\$ 16,447
Delayed draw term loan, maturing on June 25, 2020	87,730	72,342
Term loan, maturing on June 25, 2020, due in quarterly installments of \$675,000 for the first year and \$1,000,000 thereafter, excluding interest paid separately	41,600	42,600
Term loan, maturing on December 29, 2022, due in quarterly installments of \$255,006, including interest	10,438	10,577
Capital lease obligations	34	-
Less: unamortized debt issuance costs	(1,383)	(1,249)
	<u>152,265</u>	<u>140,717</u>
Less current portion	8,511	6,728
	<u>\$ 143,754</u>	<u>\$ 133,989</u>

Unamortized debt issuance costs consist of:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<u>(In thousands)</u>	
Revolving line of credit	\$ 273	\$ 229
Delayed draw term loan, maturing on June 25, 2020	358	283
Term loan, maturing on June 25, 2020	174	146
Term loan, maturing on December 29, 2022	578	591
	<u>\$ 1,383</u>	<u>\$ 1,249</u>

The amount available under the revolving credit line may be reduced in the event that the Company's borrowing base, which is based upon qualified receivables and qualified inventory is less than \$25.0 million. As of March 31, 2017, the Company's borrowing base was \$16.8 million, including \$8.1 million of eligible accounts receivable and \$8.7 million of eligible inventory.

Obligations under the Credit Agreement and the NMTC loan are secured by substantially all of the Company's assets. The Credit Agreement contains representations and warranties, and affirmative and negative covenants customary for financings of this type, including, but not limited to, limitations on additional borrowings, additional investments and asset sales. The financial covenants, which are tested as of the end of each fiscal quarter, require the Company to maintain the following specific ratios: fixed charge coverage - minimum of 1.2 to 1.0 on March 31, 2017, minimum of 1.0 to 1.0 on June 30, 2017, minimum of 1.05 to 1.0 on September 30, 2017, and minimum of 1.2 to 1.0 on December 31, 2017 and thereafter; and leverage - waived on March 31, 2017 and June 30, 2017, maximum of 5.5 to 1.0 on September 30, 2017, maximum of 4.5 to 1.0 on December 31, 2017, and maximum of 3.5 to 1.0 on March 31, 2018 and thereafter. The Company has the right to prepay borrowings under the Credit Agreement at any time without penalty.

The Company's leverage ratio at March 31, 2017, was 6.2, while the fixed charge coverage ratio was 1.43. The Company's lenders waived the leverage ratio covenant for the first and second quarters of 2017.

Note 8 — Income Taxes

As of March 31, 2017, our annual estimated effective income tax rate is 30.3%. The annual estimated effective tax rate for 2017 differs from the statutory rate due primarily to state investment tax credits, federal credits and foreign tax credits. As of March 31, 2016, our annual estimated effective income tax rate was 34.2%. The annual estimated effective tax rate for 2016 differs from the statutory rate due primarily to U.S. manufacturing tax credits and deductions and foreign income taxes.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 9 — Earnings per Share

The computation of basic and diluted net income per common share for the three-month periods ended March 31, 2017 and 2016 is as follows:

	Three Months Ended March 31,	
	2017	2016
	(In thousands, except share and per share data)	
Net income (loss)..	\$ (860)	\$ 5,409
Weighted average shares outstanding	10,301,308	10,272,155
Effect of stock options..	49,119	70,931
Weighted average shares outstanding - assuming dilution.	<u>10,350,427</u>	<u>10,343,086</u>
Net income (loss) per common share:		
Basic..	\$ (0.08)	\$ 0.53
Diluted	\$ (0.08)	\$ 0.52
Stock options not considered above because they were anti-dilutive	639,250	598,000

Note 10 — Stock Incentives

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which changes the accounting for certain aspects of share-based payment to employees. ASU 2016-09 became effective for the Company on January 1, 2017. The primary impact of adoption was the recognition of excess tax benefits in the provision for income taxes rather than paid-in capital beginning in the first quarter of 2017. Upon adoption of this standard, excess tax benefits were classified along with other income tax cash flows as an operating activity on the statement of cash flows. The Company elected to adopt this portion of the standard on a prospective basis beginning in 2017; therefore, prior periods have not been adjusted. Under the standard, cash flows related to employee taxes paid for withheld shares are presented as a financing activity on the statement of cash flows on a retrospective basis. ASU 2016-09 provides an accounting policy election to account for forfeitures as they occur, and the Company opted for this election. No other aspects of ASU 2016-09 had an effect on the Company's unaudited consolidated interim financial statements or related footnote disclosures. Adoption of ASU 2016-09 did not have a material impact on the Company's financial position, results of operations or cash flows.

In April 2014, the Orchids Paper Products Company 2014 Stock Incentive Plan (the "2014 Plan") was approved. The 2014 Plan replaced the Orchids Paper Products Company 2005 Stock Incentive Plan (the "2005 Plan") and provides for the granting of stock options and other stock based awards to employees and Board members selected by the Board's Compensation Committee. A total of 400,000 shares may be issued pursuant to the 2014 Plan. As of March 31, 2017, there were 164,200 shares available for issuance under the 2014 Plan.

Stock Options with Time-Based Vesting Conditions

The grant date fair value of the following option grants was estimated using the Black-Scholes option valuation model. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The following table details the options granted to certain members of the Board of Directors and management that were valued using the Black-Scholes valuation model and the assumptions used in the valuation model for those grants during the three months ended March 31, 2016. There were no options with time-based vesting conditions granted during the three months ended March 31, 2017. There were 6,000 options exercised during the three months ended March 31, 2017, with a weighted average exercise price of \$10.16.

Grant Date	Number of Shares	Exercise Price	Grant Date Fair Value	Risk-Free Interest Rate	Estimated Volatility	Dividend Yield	Expected Life
January-16	5,000	\$ 27.77	\$ 6.56	\$ 2.00%	40%	5.04%	5 years

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 10 — Stock Incentives (continued)

The Company expenses the cost of these options granted over the vesting period of the option based on the grant-date fair value of the award.

Stock Options with Market-Based Vesting Conditions

There were no options with market-based vesting conditions granted during the three-month periods ended March 31, 2017 or 2016. During the three months ended March 31, 2016, 900 options with market-based vesting conditions were forfeited when an employee left the Company.

The Company expenses the cost of these options granted over the implicit, or derived, service period of the option based on the grant-date fair value of the award.

Options Issued Outside of the 2014 Plan

There were no stock options granted outside of the 2014 Plan during the three-month periods ended March 31, 2017 or 2016.

Total Option Expense

The Company recognized the following expenses related to all options granted under the 2005 Plan, the 2014 Plan and outside of the 2014 Plan:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Time-based vesting options.	\$ 30	\$ 32
Market-based vesting options..	68	113
Total compensation expense related to stock options..	\$ 98	\$ 145

Restricted Stock

In February 2013, the Company granted 16,000 shares of restricted stock to certain employees under the 2005 Plan. These awards were valued at the arithmetic mean of the high and low market price of the Company's stock on the grant date, which was \$21.695 per share, and vest ratably over a three year period beginning on the first anniversary of the grant date. The second third of unforfeited shares, or 2,333 shares, vested in February 2015 and the final third of unforfeited shares, or 2,000 shares, vested in February 2016. The Company expensed the cost of restricted stock granted over the vesting period of the shares based on the grant-date fair value of the award. The Company recognized expense of \$4,000 for the three-month period ended March 31, 2016, related to shares of restricted stock granted.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 11 — Major Customers and Concentration of Credit Risk

The Company sells its paper products in the form of parent rolls and converted products. Revenues from converted product sales and parent roll sales in the three months ended March 31, 2017 and 2016 were:

	Three Months Ended March 31,	
	2017	2016
(In thousands)		
Converted product net sales	\$ 32,898	\$ 45,252
Parent roll net sales	2,456	2,491
Total net sales	\$ 35,354	\$ 47,743

Credit risk for the Company in the three months ended March 31, 2017 and 2016 was concentrated in the following customers who each comprised more than 10% of the Company's total net sales:

	Three Months Ended March 31,	
	2017	2016
Converted product customer 1	36%	38%
Converted product customer 2	*	12
Converted product customer 3	14	11
Total percent of net sales	50%	61%

*Customer did not account for more than 10% of sales during the period indicated

No additional customers accounted for more than 10% of sales during the three-month periods ended March 31, 2017 and 2016.

At March 31, 2017 and December 31, 2016, the significant customers accounted for the following amounts of the Company's accounts receivable (in thousands):

	March 31,		December 31,	
	2017		2016	
Converted product customer 1	\$ 4,001	35%	\$ 3,703	41%
Converted product customer 2	*	*	*	*
Converted product customer 3	1,122	10	702	8
Total of accounts receivable	5,123	\$ 45%	4,405	\$ 49%

*Customer did not account for more than 10% of accounts receivable during the period indicated

At March 31, 2017 and December 31, 2016, no additional customers accounted for more than 10% of the Company's accounts receivable.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 12 — New Market Tax Credit

In December 2015, the Company received approximately \$5.1 million in net proceeds from financing agreements related to capital expenditures at its Barnwell, South Carolina facility. This financing arrangement was structured with a third party financial institution (the “NMTC Investor”) associated with U.S. Bank, an investment fund, and two community development entities (the “CDEs”) majority owned by the investment fund. This transaction was designed to qualify under the federal New Market Tax Credit (“NMTC”) program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. Through this transaction, the Company has secured low interest financing and the potential for future debt forgiveness related to the South Carolina facility. Upon closing of the NMTC transaction, the Company provided an aggregate of approximately \$11.1 million, which was borrowed from U.S. Bank, to the investment fund, in the form of a loan receivable, with a term of 25 years, bearing an interest rate of 1.0% per annum. This \$11.1 million in proceeds plus \$5.1 million of net capital from the NMTC Investor were contributed to and used by the CDEs to make loans in the aggregate of \$16.2 million to a subsidiary of the Company, Orchids Lessor SC, LLC (“Orchids Lessor”). These loans bear interest at a fixed rate of 1.275%. Orchids Lessor is using the loan proceeds to partially fund \$18.0 million of the Company’s capital assets associated with the Barnwell facility. These capital assets will serve as collateral to the financing arrangement. This transaction also includes a put/call feature whereby, at the end of a seven-year compliance period, we may be obligated or entitled to repurchase the NMTC Investor’s interest in the investment fund. The value attributable to the put price is nominal. Consequently, if exercised, the put could result in the forgiveness of the NMTC Investor’s interest in the investment fund, and result in a net non-operating gain of up to \$5.1 million. The call price will be valued at the net present value of the cash flows of the lease inherent in the transaction.

The NMTC Investor is subject to 100% recapture of the New Market Tax Credits it receives for a period of seven years as provided in the Internal Revenue Code and applicable U.S. Treasury regulations. The Company is required to be in compliance with various regulations and contractual provisions that apply to the New Market Tax Credit arrangement. Noncompliance with applicable requirements could result in the NMTC Investor’s projected tax benefits not being realized and, therefore, require the Company to indemnify the NMTC Investor for any loss or recapture of New Market Tax Credits related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

At March 31, 2017 and December 31, 2016, the NMTC Investor’s interest of \$5.2 million and \$5.2 million, respectively, is recorded in other long-term liabilities on the consolidated balance sheet, while the outstanding balance of the amount borrowed from U.S. Bank to loan to the investment fund of \$9.9 million and \$10.0 million, respectively, is recorded in long-term debt, net of the current portion. At March 31, 2017 and December 31, 2016, the Company had approximately \$0.6 million and \$0.6 million, respectively, of debt issuance costs related to the above transactions, which are being amortized over the life of the agreements. Unspent proceeds from the arrangement of approximately \$1.3 million and \$1.3 million at March 31, 2017 and December 31, 2016, respectively, are obligated for funding the specified capital assets at the Barnwell facility and are included in restricted cash.

Note 13 — ODFA Pooled Financing

In September 2014, the Company entered into an agreement with the Oklahoma Development Finance Authority (“ODFA”) whereby the ODFA agreed to provide the Company up to \$3.5 million to fund a portion of the cost of a new paper production line before September 1, 2020. The agreement provides for the Oklahoma state withholding payroll taxes withheld by the Company from its employees to be placed into the Community Economic Development Pooled Finance Revolving Fund – Orchids Paper Products (“Revolving Fund”). Each year on September 1, beginning in 2015 and ending in 2020, the ODFA will return these state withholding taxes in the Revolving Fund to the Company, up to an amount totaling \$3.5 million. These amounts are recognized as a note receivable in other current assets in the consolidated balance sheet and in other income in the consolidated statements of operations as they are withheld from employees.

As of March 31, 2017 and December 31, 2016, the Company had a note receivable of \$681,000 and \$536,000, respectively, related to amounts due under the ODFA pooled financing agreement. The Company recognized \$145,000 and \$197,000 of other income in the consolidated statements of operations for the three-month periods ended March 31, 2017 and 2016, respectively, related to this agreement.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 14 — New and Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 requires, among other things, that excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the statement of operations rather than as additional paid-in capital, changes the classification of excess tax benefits from a financing activity to an operating activity in the statement of cash flows, and allows forfeitures to be accounted for when they occur rather than estimated. ASU 2016-09 became effective for the Company on January 1, 2017. Adoption of ASU 2016-09 did not have a material impact on the Company’s financial position, results of operations and cash flows.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (“ASU 2015-11”). ASU 2015-11 requires inventory measured using all methods other than the last-in, first-out (LIFO) or retail methods to be measured at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 became effective for the Company on January 1, 2017. Adoption of ASU 2015-11 did not have a material impact on the Company’s financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 provides for a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit’s carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective, on a prospective basis, for SEC filers for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Management is currently assessing the impact ASU 2017-04 will have on the Company, but it is not expected to have a material impact on the Company’s financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective, on a prospective basis, for public companies for interim and annual reporting periods beginning after December 15, 2017. Management is currently assessing the impact ASU 2017-01 will have on the Company, but it is not expected to have a material impact on the Company’s financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No 2016-18 is effective, on a retrospective basis, for public companies for interim and annual periods beginning after December 15, 2017, with early adoption permitted. Management is currently assessing the impact ASU 2016-18 will have on the Company, but it is not expected to have a material impact on the Company’s cash flows.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”). ASU 2016-16 requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-16 is effective for public companies for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Management is currently assessing the impact ASU 2016-16 will have on the Company’s financial position and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for public companies for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. Management is currently assessing the impact ASU 2016-15 will have on the Company, but it is not expected to have a material impact on the Company’s cash flows.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

Note 14 — New and Recently Adopted Accounting Pronouncements (continued)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for SEC filers for interim and annual periods beginning after December 15, 2019. Management is currently assessing the impact ASU 2016-13 will have on the Company, but it is not expected to have a material impact on the Company’s financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet but did not make significant changes to the effects of lessee accounting on the statement of operations or statement of cash flows. ASU 2016-02 is effective for public companies for annual and interim periods beginning after December 15, 2018, with early adoption permitted. Management is currently assessing the impact ASU 2016-02 will have on the Company’s financial position.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments, specifically equity investments and financial instruments measured at amortized cost. ASU 2016-01 is effective for public companies for annual and interim periods beginning after December 15, 2017. Management is currently assessing the impact ASU 2016-01 will have, if any, on the Company’s financial position, results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Due to the issuance of ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU 2015-14”), in July 2015, the effective date of ASU 2014-09 was deferred for one year and becomes effective for the Company for interim and annual periods beginning on or after December 15, 2017. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (“ASU 2016-08”). ASU 2016-08 clarifies implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”). In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”). ASU 2016-10 and ASU 2016-12 do not change the guidance under ASU 2014-09, but clarify certain aspects of this guidance. In May 2016, the FASB issued ASU No. 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815)* (“ASU 2016-11”). ASU 2016-11 rescinds certain SEC accounting guidance that is inconsistent with guidance in ASU 2014-09. Management is currently assessing the impact these ASUs will have on the Company, but they are not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. These statements relate to, among other things:

- our business strategy;
- the market opportunity for our products, including expected demand for our products;
- our estimates regarding our capital requirements;
- our sales and earnings; and
- any of our other plans, objectives, expectations, and intentions contained in this report that are not historical facts.

These statements relate to future events or future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "target," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology, or by discussion of strategy that may involve risks and uncertainties. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements are only predictions.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date hereof. You should not place undue reliance on forward-looking statements. We caution you that these forward-looking statements are only predictions, which are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Some factors that could materially affect our actual results, levels of activity, performance, or achievements are detailed under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC on March 15, 2017, as amended by our Amendment No. 1 to our Annual Report on Form 10-K/A, filed with the SEC on March 30, 2017, and include but are not limited to the following items:

- failure to complete the construction of our South Carolina facility on schedule or at all;
- intense competition in our markets and aggressive pricing by our competitors could force us to decrease our prices and reduce our profitability;
- a substantial percentage of our converted product revenues are attributable to a small number of customers who may decrease or cease purchases at any time;
- disruption in our supply or increase in the cost of fiber;
- Fabrica's failure to execute under the Supply Agreement;
- the additional indebtedness incurred to finance the construction of our South Carolina facility;
- new competitors entering the market and increased competition in our region;
- changes in our retail trade customers' policies and increased dependence on key retailers in developed markets;
- excess supply in the market may reduce our prices;
- the availability of, and prices for, energy;
- failure to purchase the contracted quantity of natural gas may result in financial exposure;
- our exposure to variable interest rates;
- the loss of key personnel;
- labor interruption;
- natural disaster or other disruption to our facilities;
- ability to meet loan covenant conditions or renegotiate such conditions with lenders;
- ability to finance the capital requirements of our business;
- cost to comply with existing and new laws and regulations;
- failure to maintain an effective system of internal controls necessary to accurately report our financial results and prevent fraud;
- the parent roll market is a commodity market and subject to fluctuations in demand and pricing;
- indebtedness limits our free cash flow and subjects us to restrictive covenants relating to the operation of our business;
- failure to perform as projected in our financial forecasts;
- an inability to continue to implement our business strategies; and
- inability to sell the capacity generated from our converting lines.

If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you read in the following Management's Discussion and Analysis of Financial Condition and Results of Operations reflects our current views with respect to future events and is subject to the risks listed above and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.

Overview of Our Business

We are a customer focused, national supplier of high-quality consumer tissue products. We produce bulk tissue paper, known as parent rolls, and convert parent rolls into finished products, including paper towels, bathroom tissue and paper napkins. We generally sell parent rolls not required by our converting operation to other converters. Our integrated manufacturing facilities have flexible production capabilities, which allow us to produce high quality tissue products within short production times for customers in our target regions. This vertical integration, a low variable cost per unit, and the use of operating leverage in securing a higher contribution margin on added volume, we believe, all provide competitive advantage from a cost standpoint. We predominately sell our products under private labels to our core customer base in the "at home" market, which consists primarily of dollar stores, discount retailers and grocery stores that offer limited alternatives across a wide range of products. Our focus historically has been the dollar stores (which are also referred to as discount retailers) and the broader discount retail market because of their overall market growth, consistent order patterns and low number of stock keeping units ("SKUs"). The "at-home" tissue market consists of several quality levels, including a value tier, premium tier and ultra-premium tier. To a lesser extent, we service customers in the "away from home" market. Our core customer base in the "away from home" market consists of companies in the janitorial market and food service market. Most of the products we sell in the "away from home" market are included in the value tier. While we expect to continue to service this market in the near term, we currently do not consider the "away from home" market a growth vehicle for us.

Our facilities have been designed to have the flexibility to produce and convert parent rolls across different product tiers and to use both virgin and recycled fibers to maximize quality and to control costs. We own an integrated facility in Pryor, Oklahoma with modern papermaking and converting equipment, which primarily services the central United States. We invested approximately \$39 million at this facility for a paper machine and a converting line. The paper machine has improved our margins by reducing our manufacturing cost and providing an additional 17,000 tons of parent roll capacity, resulting in total capacity of approximately 74,000 tons of parent rolls per year at our Pryor facility. In addition, the converting line adds 12,500 tons of capacity, for a total of 82,500 tons of converting capacity in our Pryor facility. In June 2014, we expanded our geographic presence to service the United States West coast through a strategic transaction with Fabrica de Papel San Francisco, S.A. de C.V. ("Fabrica"), one of the largest tissue manufacturers by capacity in Mexico (the "Fabrica Transaction"). The Fabrica Transaction provided us exclusive access to Fabrica's U.S. customers, enabling us to further penetrate the region, and the supply agreement ("Supply Agreement") we entered into with Fabrica has provided access to up to 19,800 tons of product each year at cost.

As part of our strategy to be a national supplier of high quality consumer tissue products, we constructed a world-class integrated tissue operation in Barnwell, South Carolina, which is expected to be fully operational by the end of third quarter 2017. We believe that this new facility will allow us to better serve our existing customers in the Southeastern United States, while also enabling us to penetrate new customers in this region. The facility is designed to provide highly flexible, cost competitive production across all quality tiers with papermaking capacity of between 35,000 and 40,000 tons per year and converting capacity of between 30,000 and 32,000 tons per year. The first converting line was operational by the end of the first quarter of 2016 and the second converting line was operational by the end of the third quarter of 2016. The paper machine will utilize a highly versatile process capable of producing all quality grades, including ultra-premium tier products. We estimate the total costs of the project to be approximately \$150 million to \$155 million.

We purchase various types of fibers to manufacture bulk rolls of tissue paper, called "parent rolls," which we then convert into a broad line of finished tissue products. The fiber we source to manufacture our parent rolls primarily consists of pre-consumer recycled grades, with a lesser amount consisting of virgin kraft grades. As we continue our efforts to expand our product offerings into the higher quality tiers of the market, the percentage of virgin kraft grades that we purchase will likely increase. Our paper mill in Pryor has a pulping process, which takes recycled fibers and kraft fibers and processes them for use in our three paper machines. Our pulping operation has the ability to selectively process our mixed basket of fibers to achieve maximum quality and to control costs. In 2015, we replaced two of our older paper machines in Pryor with a new paper machine, which increased our tissue papermaking capacity from approximately 57,000 tons to approximately 74,000 tons, depending upon the mix of paper grades produced. The new machine also reduced our manufacturing costs, improved product quality and increased manufacturing flexibility.

Generally, our parent roll production operation runs on a 24/7 operating schedule. Parent rolls we produce in excess of converting production requirements are sold, subject to other inventory management considerations, on the open market. Our strategy is to sell all of the parent rolls we manufacture as converted products (such as paper towels, bathroom tissue and napkins), which generally carry higher margins than non-converted parent rolls. Parent rolls are a commodity product and thus are subject to market pricing. We plan to continue to sell any excess parent roll capacity on the open market as long as market pricing is profitable. When converting production requirements exceed paper mill capacity, we supplement our papermaking capacity by purchasing parent rolls on the open market, which we believe has an unfavorable impact on our gross profit margin. During the construction phase of our new paper machine, our total tissue paper production was reduced and we were required to purchase parent rolls on the outside market during the fourth quarter of 2014 and first quarter of 2015 to meet our converting requirements. In 2014, we ran all of our paper machines on a full-time basis until we began decommissioning two older paper machines in September of 2014 in preparation of construction and installation of the new paper machine.

We supply both large national customers and regional customers while targeting high growth regions of the United States and high growth distribution channels. Our largest customers are Dollar General and Family Dollar, which accounted for 50% of our total sales in the first quarter of 2017. Our products are a daily consumable item. Therefore, the order stream from our customer base is fairly consistent with limited seasonal fluctuations. Changes in the national economy do not materially affect the market for our products due to their non-discretionary nature and high degree of household penetration; however, discount stores, a principal element of our customer base, may have higher sales during economic downturns. Demand for tissue typically grows in line with overall population, and our customers are typically located in regions of the U.S. where the population is growing faster than the national average. Private label markets have been growing as more consumers watch for value; however, competition between brand names and private labels continue a give and take. We are also introducing and expanding upon our brand-lines.

We focus our sales efforts on areas within approximately 500 miles of our manufacturing facilities, as we believe this radius maximizes our freight cost advantage. Our target region around our Oklahoma facility includes the lower Mid-West. The Fabrica Transaction allowed us to more effectively service customers that are located in the Southwest. We believe our manufacturing facility in Barnwell, South Carolina will help us meet the growing demand in the Southeast. Demand for tissue in the “at home” tissue market has historically been closely correlated to population growth and, as such, performs well in a variety of economic conditions. Our expanded target region has experienced strong population growth in the past years relative to the national average, and these trends are expected to continue.

Our products are sold primarily under our customers’ private labels and, to a lesser extent, under our brand names such as Orchids Supreme[®], Virtue[®], Clean Scents[™], Tackle[®], Orchids Trends[™], Colortex[®], My Size[®], Velvet[®], and Big Mopper[®]. The Fabrica Transaction gave us the exclusive right to sell products under Fabrica’s brand names in the United States, including under the names Virtue[®], Truly Green[®], Golden Gate Paper[®] and Big Quality[®]. All of our converted product net sales are derived through truckload purchase orders from our customers. Parent roll net sales are derived from purchase orders that generally cover a one-month time-period. We do not have supply contracts with any of our customers, which is the standard practice within our industry.

Our profitability depends on several key factors, including but not limited to:

- the volume of converted product produced and sold, and the volume of parent rolls produced and sold;
- the cost of fiber used in producing paper;
- the net, delivered market price of similar products offered by competitors;
- the efficiency of operations in both our paper mills and converting facilities;
- the cost of energy;
- the cost of labor and maintenance;
- financial leverage undertaken, inclusive of its impacts upon interest expense and debt service;
- capital spending requirements, inclusive of impacts upon depreciation; and
- working capital and other cash flow sources and uses.

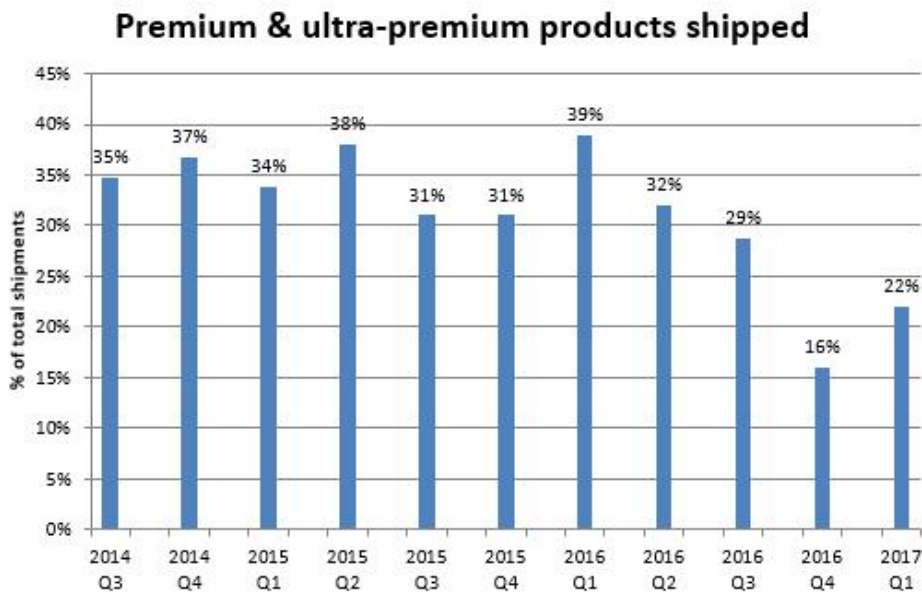
The private label tissue market is highly competitive, and many discount retail customers are extremely price sensitive. As a result, it is difficult to affect private-label price increases. The branded tissue market is highly competitive, and three large competitors lead in sales and pricing in the United States. There is also competition between the brand and private-label markets. We expect these competitive conditions to continue.

Our Strategy

Our goal is to be a customer focused national supplier of high quality consumer tissue products. We believe we will achieve this goal by:

- strengthening and expanding our customer base through cooperative and innovative product development and superior customer service;
- focusing on higher growth geographic regions and channels;
- maintaining flexible, low cost integrated facilities able to produce a broad product spectrum;
- harvesting the benefits of expanding our manufacturing footprint via the Fabrica Transaction and our expansion in South Carolina; and
- employing a disciplined capital strategy by focusing on growing free cash flow and targeting high return capital projects.

Part of our strategy is to increase our volume of premium and ultra-premium tier products shipped to customers, as these products typically have a higher gross margin than value tier products. The following graph shows shipments of our premium tier and ultra-premium tier products as a percentage of total cases shipped. Prior to the completion of the Barnwell, S.C. paper mill, we have only had the capability to manufacture ultra-premium products through the Supply Agreement with Fabrica.



Comparative Three-Month Periods Ended March 31, 2017 and 2016

Net Sales

	Three Months Ended March 31,	
	2017	2016
	(In thousands, except tons)	
Converted product net sales	\$ 32,898	\$ 45,252
Parent roll net sales	2,456	2,491
Total net sales	<u>\$ 35,354</u>	<u>\$ 47,743</u>
Converted product (tons shipped)	17,724	23,408
Parent roll (tons shipped)	2,846	2,791
Total tons shipped	<u>20,570</u>	<u>26,199</u>

Net sales for the three months ended March 31, 2017, decreased \$12.4 million, or 26%, primarily due to heavy promotional activity by brand-competitors and other competitive pressures as compared to the same period in 2016. Parent roll sales were \$2.5 million in both quarters, and converted product sales decreased \$12.4 million to \$32.9 million for the three months ended March 31, 2017. \$10.2 million of the decrease in revenue was attributable to the decreased number of tons sold, and \$2.2 million was attributable to a decline in the average price per ton. The net selling price per ton decreased due to a changing mix of customers buying a changing mix of products.

Cost of Sales

	Three Months Ended March 31,	
	2017	2016
	(in thousands, except gross profit margin %)	
Cost of goods sold	\$ 30,161	\$ 33,725
Depreciation	3,224	2,637
Cost of sales	<u>\$ 33,385</u>	<u>\$ 36,362</u>
Gross profit	\$ 1,969	\$ 11,381
Gross profit margin %	5.6%	23.8%

The major components of cost of sales are the cost of internally produced paper, raw materials, direct labor and benefits, freight costs of products shipped to customers, insurance, repairs and maintenance, energy, utilities, depreciation and the cost of converted products purchased under the Supply Agreement with Fabrica.

Cost of sales decreased \$3.0 million, or 8%, to \$33.4 million, compared to \$36.4 million for the same period of 2016. As a percentage of net sales, cost of sales increased to 94.4% in the 2017 quarter from 76.2% in the 2016 quarter. Tons sold decreased by 20%, leading to a decrease of \$7.0 million in cost of sales; however, the average cost per unit increased 9%, offsetting \$3.4 million of this decrease. The addition of labor, overhead, and the start-up costs for Barnwell, which are not yet being offset by production and absorption, account for the largest portion of the relative cost increase. The decline in production volumes drove decreased absorption and unfavorable efficiency variances, to which approximately \$4.4 million of the change in cost is attributable. Increases in repairs and maintenance contributed \$0.5 million; direct labor added \$0.4 million; and other cost increases were more than offset by savings, principally from lower fiber costs and from decreased freight costs.

Gross Profit

Gross profit for the quarter ended March 31, 2017 decreased \$9.4 million, or 83%, to \$2.0 million compared to \$11.4 million for the same period last year. Gross profit as a percentage of net sales in the 2017 quarter was 5.6% compared to 23.8% in the 2016 quarter. The decline in gross profit as a percent of net sales was primarily due to the higher average production cost per unit, and to a lesser extent the decrease in the average selling price per ton. The increase in production costs were primarily due to the previously discussed impacts of Barnwell coming on-line and the effect of under-utilization of production facilities in the first quarter of 2017. As previously mentioned, the decrease in the average selling price per ton was due to a changing mix of customers buying a changing mix of products, rather than outright changes in prices.

Selling, General and Administrative Expenses

	Three Months Ended March 31,	
	2017	2016
	(In thousands, except SG&A as a % of net sales)	
Commission expense	\$ 217	\$ 353
Other selling, general & administrative expense	2,402	2,369
Selling, general & administrative expenses (SG&A)	<u>\$ 2,619</u>	<u>\$ 2,722</u>
SG&A as a % of net sales	7.4%	5.7%

Selling, general and administrative expenses include salaries, commissions to brokers and other miscellaneous expenses. Selling, general and administrative expenses remained relatively level at \$2.6 million for the quarter ended March 31, 2017, compared to \$2.7 million for the same period in 2016. As a percentage of net sales, selling, general and administrative expenses increased to 7.4% in the first quarter of 2017 compared to 5.7% for the same period in 2016, reflecting lower net sales in 2017.

Amortization of Intangibles

We recognized \$233,000 and \$377,000 of amortization expense related to the intangible assets acquired in the Fabrica Transaction during the quarters ended March 31, 2017 and 2016, respectively.

Operating (Loss) Income

As a result of the foregoing factors, operating loss for the quarter ended March 31, 2017, was \$0.9 million compared to operating income of \$8.3 million for the same period of 2016.

Interest Expense and Other Income

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Interest expense	\$ 517	\$ 263
Other (income) expense, net	(167)	(201)
Income (loss) before income taxes	\$ (1,233)	\$ 8,220

Interest expense includes interest on all debt and amortization of deferred debt issuance costs. Interest expense for the first quarter of 2017 totaled \$517,000 compared to interest expense of \$263,000 in the same period in 2016. Interest expense for 2017 excludes \$730,000 of interest capitalized on significant projects during the quarter compared to \$134,000 of capitalized interest for the same period in 2016. The higher level of total interest expense in 2017 resulted from higher debt balances due primarily to additional debt incurred in conjunction with additional borrowings to finance capital expenditures.

Other (income) expense for the three months ended March 31, 2017 and 2016 includes \$145,000 and \$197,000, respectively, of income related to our pooled financing agreement with the Oklahoma Development Financing Authority (ODFA).

(Loss) Income Before Income Taxes

As a result of the foregoing factors, loss before income taxes was \$1.2 million for the quarter ended March 31, 2017, compared to income before income taxes of \$8.2 million for the same period in 2016.

Income Tax Provision

As of March 31, 2017, our annual estimated effective income tax rate was 30.3%. The annual estimated effective tax rate for 2017 differs from the statutory rate due primarily to state investment tax credits, federal credits and foreign tax credits. As of March 31, 2016, our annual estimated effective income tax rate was 34.2%. The annual estimated effective tax rate for 2016 differs from the statutory rate due primarily to U.S. manufacturing tax credits and deductions and foreign income taxes.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. Liquid financial assets consist of cash and unused borrowing capacity under our revolving credit facility. Liquidity is also generated through the management of working capital, for example, the collection of trade or tax receivables. As product inventories and trade accounts receivable change, our availability to the \$25 million revolving line of credit changes. Draws upon or repayments of the revolving line of credit may largely offset changes in working capital. Our cash requirements have historically been satisfied through a combination of cash flows from operations, equity financings and debt financings. We expect this trend to continue. However, we may issue equity to decrease financial leverage and complete the construction and ramp-up of the Barnwell, South Carolina, project, which would also provide headroom to later facilitate growth opportunities.

Currently, the most significant event effecting liquidity and capital needs is the construction of our integrated converting facility in Barnwell, South Carolina, consisting of two converting lines, a converting building, a paper mill building, a paper machine capable of producing structured tissue, equipment capable of utilizing recycled paper, warehouse facilities, and other supporting equipment and facility-space at a total estimated cost of \$150 million to \$155 million. Financing for this project was provided through a combination of: (i) a follow-on offering of 1.5 million shares of our common stock, which provided net proceeds of \$32.1 million; (ii) refinancing and expansion of our credit facility with U.S. Bank, (iii) a New Market Tax Credit ("NMTC") transaction, under which we received \$16.2 million of proceeds, and (iv) operating cash flows.

In April 2015, we amended our credit facility with US. Bank National Association (“U.S. Bank”) to add \$40 million of borrowing capacity under a delayed draw term loan. In June 2015, we entered into Amendment No. 2 to obtain additional borrowing capacity. This amendment combined \$20.0 million outstanding under an existing revolving line of credit and \$27.3 million outstanding under an existing term loan into a \$47.3 million term loan, increased the delayed draw facility from \$40 million to \$115 million, extended the maturity of the delayed draw facility from August 2015 to June 2020 and added a \$50 million accordion feature. Proceeds from the delayed draw term loan must be used solely to finance the purchase and installation of new equipment and construction at our South Carolina facility. In January 2017, we entered into Amendment No. 3 to increase the total loan commitment, modify the pricing grid applicable to interest rates and the unused commitment fee, increase the permitted total leverage ratio for fiscal quarters ending on or prior to March 31, 2018, and amend the terms of the draw loan to provide for additional advance amounts available for the purpose of acquiring or improving real estate. Additionally, in April 2017, we entered into Amendment No. 4, which waived the permitted total leverage ratio for the first two quarters of 2017 and increased the permitted total leverage ratio for the last two quarters of 2017, lowered the required fixed charge coverage ratio for the second and third quarters of 2017, and extended the period during which funds may be drawn under the delayed draw loan to December 25, 2017.

Advances under the facility bear interest at variable rates. The term loan is payable in quarterly installments of \$675,000 through June 2016 and \$1 million per quarter thereafter, while borrowings against the delayed draw term loan facility are payable in quarterly installments of 1.5% of the June 30, 2017 outstanding balance beginning in September 2017.

In December 2015, we entered into a NMTC transaction, which provided \$16.2 million of loan proceeds, which are being used to finance capital expenditures associated with our South Carolina facility. This transaction allowed us to fix the interest on \$11.1 million of its long-term debt for seven years and includes the potential for future debt forgiveness of approximately \$5.1 million in seven years. In connection with this transaction, the maximum borrowing capacity under our delayed draw facility was reduced from \$115.0 million to \$99.6 million, and was subsequently increased to \$108.5 million with the January 2017 amendment to our credit facility.

During the three months ended March 31, 2017, cash decreased \$3.0 million, to \$5.8 million, compared to \$8.8 million at December 31, 2016. During the 2017 period, we incurred \$18.0 million of capital expenditures and received \$11.6 million of borrowings under our revolving credit facility, net of principal repayments.

As of March 31, 2017, total debt outstanding was \$153.6 million. Cash as of March 31, 2017, totaled \$5.8 million, resulting in a net debt level of \$147.8 million. This compares to \$142.0 million in total debt and cash of \$8.8 million as of December 31, 2016, resulting in a net debt level of \$133.2 million. We had \$13.8 million and \$87.7 million outstanding under our \$25.0 million revolving line of credit and our \$108.5 million delayed draw term loan, respectively, as of March 31, 2017.

The following table summarizes key cash flow information for the three-month periods ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Cash flow provided by (used in):		
Operating activities	\$ 3,613	\$ 8,863
Investing activities	(18,051)	(20,785)
Financing activities	11,465	15,600

Cash flows provided by operating activities were \$3.6 million for the three-month period ended March 31, 2017. Operating cash flows excluding changes in working capital were \$7.4 million, reflecting cash earnings and an increase in deferred income taxes. Changes in working capital used \$3.8 million of operating cash flows, largely due to increases in accounts receivable and income tax receivables, net of an increase in accounts payable related to the timing of purchases and cash payments.

Cash flows used in investing activities were \$18.1 million for the three-month period ended March 31, 2017, due to expenditures on capital projects during the period, primarily associated with our South Carolina facility.

Cash flows provided by financing activities were \$11.5 million for the three-month period ended March 31, 2017, primarily due to \$12.8 million of borrowings under our credit facility, net of \$1.1 million of principal debt repayments.

Dividends of \$3.6 million declared in the first quarter of 2017 were paid in the second quarter of 2017, after the balance sheet date. In the second quarter of 2017, our Board of Directors considered it prudent to suspend the quarterly dividend to preserve financial flexibility and ensure capital is appropriately allocated to advance the success of our business. The payment of quarterly dividends is at the discretion of our Board of Directors. The declaration and payment of future dividends to holders of our common stock will be based upon many factors, including our financial condition, earnings, capital requirements of our businesses, legal requirements, regulatory constraints, industry practice, restrictions under our credit agreements, and other factors that the Board of Directors deems relevant. The Board of Directors retains the power to modify, suspend or cancel the Company's dividend policy in any manner and at any time as it may in its discretion deem necessary or appropriate.

Cash flows provided by operating activities was \$8.9 million in the three-month period ended March 31, 2016, which primarily resulted from earnings before non-cash charges, including depreciation and amortization, and an increase in accrued liabilities, which were partially offset by increases in accounts receivable and a decrease in accounts payable. The increase in accrued liabilities is primarily due to increased income taxes payable due to higher taxable income and increased accrued sales promotions due to increased sales. The increase in accounts receivable is primarily related to the timing of sales and related cash receipts. The decrease in accounts payable is primarily related to the timing of purchases and cash payments.

Cash flows used in investing activities in the first three months of 2016 included \$25.6 million of expenditures on capital projects during the period, partially offset by the release of \$4.8 million of restricted cash to finance capital expenditures associated with our South Carolina facility.

Cash flows provided by financing activities was \$15.6 million in the three-month period ended March 31, 2016, primarily due to \$18.0 million of borrowings under our credit facility and \$1.9 million of proceeds from economic incentives associated with our South Carolina facility, which were partially offset by \$3.6 million of cash dividends paid to stockholders.

Critical Accounting Policies and Estimates

The preparation of our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our financial statements:

Accounts Receivable. Accounts receivable consist of amounts due to us from normal business activities. Our management must make estimates of accounts receivable that will not be collected. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's creditworthiness as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated losses based on historical experience and specific customer collection issues that we have identified. Trade receivables are written-off when all reasonable collection efforts have been exhausted, including, but not limited to, external third-party collection efforts and litigation. While such credit losses have historically been within management's expectations and the provisions established, there can be no assurance that we will continue to experience the same credit loss rates as in the past. During the first quarter of 2017, no accounts receivable were written off against the allowance for doubtful accounts, while the provision for bad debts was increased by \$20,000 based on sales levels, historical experience and an evaluation of the quality of existing accounts receivable. During the first quarter of 2016, no accounts receivable were written off against the allowance for doubtful accounts, nor was the provision for bad debts increased or decreased based on sales levels, historical experience and an evaluation of the quality of existing accounts receivable, resulting in no change to the allowance.

Inventory. Our inventory consists of converted finished goods, bulk paper rolls and raw materials and is stated at the lower of cost or market based on standard cost, specific identification, or FIFO (first-in, first-out). Standard costs approximate actual costs on a FIFO basis. Material, labor and factory overhead necessary to produce the inventories are included in the standard cost. Our management regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based on the age of the inventory and forecasts of product demand. A significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand. During the first three months of 2017, the inventory allowance was increased \$312,000 based on a specific review of estimated slow moving or obsolete inventory items and was decreased \$73,000 due to actual write-offs of obsolete inventory items, resulting in a net increase in the allowance of \$239,000. During the first three months of 2016, the inventory allowance was increased \$24,000 based on a specific review of estimated slow moving or obsolete inventory items. No amounts were written off against the allowance, resulting in a net increase in the allowance of \$24,000.

Property, Plant and Equipment. Significant capital expenditures are required to establish and maintain paper mills and converting facilities. Our property, plant and equipment consists of land, buildings and improvements, machinery and equipment, vehicles, parts and spares and construction-in-process, which are stated at cost, net of accumulated depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Our management regularly reviews estimated useful lives to determine whether any changes are necessary to reflect the related assets' actual productive lives. The lives of our property, plant and equipment currently range from 2.5 to 40 years.

Stock-based Compensation. U.S. GAAP requires equity-classified, share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant and to be expensed over the applicable vesting period. We recognize this expense on a straight-line basis over the options' expected terms. We issue stock options that vest over a specified period (time-based vesting) and stock options that vest when the price of our common stock reaches a certain price (market-based vesting). We also issue restricted stock.

There were no options granted in the first three months of 2017. We granted options to purchase 5,000 shares of our common stock in the first three months of 2016. We recorded stock-based compensation expense of \$98,000 and \$145,000 during the three-month periods ended March 31, 2017 and 2016, respectively, in connection with the option grants. In February 2013, we granted 16,000 shares of restricted stock. We recorded stock-based compensation expense of \$4,000 during the three-month period ended March 31, 2016, in connection with restricted stock grants. Grants of restricted stock are valued using the closing market price of our common stock on the date of grant.

We estimate the grant date fair value of time-based stock option awards using the Black-Scholes option valuation model, which requires assumptions involving an estimate of the fair value of the underlying common stock on the date of grant, the expected term of the options, volatility, discount rate and dividend yield. Separate values were determined for options having exercise prices ranging from \$7.48 to \$31.33. For options valued using the Black-Scholes option valuation model, we calculated expected option terms based on the "simplified" method for "plain vanilla" options, due to our limited exercise information. The "simplified method" calculates the expected term as the average of the vesting term and the original contractual term of the options. We calculated volatility using the daily volatilities of our common stock since our Initial Public Offering ("IPO"), while the discount rate was estimated using the interest rate for a treasury note with the same contractual term as the options granted. Dividend yield is estimated at our current dividend rate, with adjustments for any known future changes in the rate.

We have engaged a valuation specialist to estimate the grant date fair value of market-based stock option awards. Separate values were determined for options having exercise prices ranging from \$25.24 to \$31.125. The specialist utilizes a Monte Carlo valuation method to estimate the grant date fair value of the options granted in order to simulate a range of our possible future stock prices. Significant assumptions to the Monte Carlo method include the expected life of the option, volatility and dividend yield. The expected life of the option is based on the average of the service period and the contractual term of the option, using the "simplified" method for "plain vanilla" options. Volatility is calculated based on a mix of historical and implied volatility during the expected life of the options. Historical volatility is considered since our IPO and implied volatility is based on the publicly traded options of a three company peer group within the paper industry. Dividend yield is estimated based on our average historical dividend yield and our current dividend yield as of the grant date. The Monte Carlo analysis is performed under a risk-neutral premise, under which price drift is modeled using treasury note yields matching the expected life of the options.

Under U.S. GAAP, we expense the compensation cost related to the market-based stock option awards on a straight-line basis over the derived service periods of the options as calculated under the Monte Carlo valuation method. However, if the market condition is achieved for any tranche of these options prior to the end of the derived service period, all remaining expense related to that tranche would be recognized in the period in which the market condition is achieved. Additionally, if the service period is met but the share price target required for the options to become exercisable is never achieved, no compensation cost may be reversed. As such, we may recognize expense for options that never become exercisable.

Prior to adoption of ASU 2016-09 in the first quarter of 2017, share-based compensation expense was recognized on a straight-line basis, net of estimated forfeitures, such that expense was recognized only for share-based awards that were expected to vest. Upon adoption, we will no longer apply a forfeiture rate and instead will account for forfeitures as they occur. As such, compensation cost associated with unvested share-based awards may be reversed if they are forfeited.

Intangible Assets and Goodwill. We allocate the cost of business acquisitions to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition (commonly referred to as the purchase price allocation). As part of the purchase price allocations for our business acquisitions, identifiable intangible assets are recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are capable of being separated or divided from the acquired business and sold, transferred, licensed, rented or exchanged. We have engaged a valuation specialist to estimate the fair value of our purchase price and the related intangible assets acquired.

The value assigned to goodwill equals the amount of the purchase price of the business acquired in excess of the sum of the amounts assigned to identifiable acquired assets, both tangible and intangible, less liabilities assumed. At March 31, 2017, we had goodwill of \$7.6 million and identifiable intangible assets, net of accumulated amortization, of \$14.3 million.

Intangible assets are amortized over their respective estimated useful lives ranging from two to twenty years. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to our future cash flows rather than the period of time that it would take us to internally develop an intangible asset that would provide similar benefits. The estimate of the useful lives of our intangible asset is based on an analysis of all pertinent factors, in particular:

- the expected use of the asset by the entity;
- the expected useful life of another asset or group of assets to which the useful life of the intangible asset may relate;
- any legal, regulatory or contractual provisions that may limit the useful life;
- any legal, regulatory, or contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost (provided there is evidence to support renewal or extension and renewal or extension can be accomplished without material modifications of the existing terms and conditions);
- the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels); and
- the level of regular maintenance expenditures (but not enhancements) required to obtain the expected future cash flows from the asset (for example, a material level of required maintenance in relation to the carrying amount of the asset may suggest a limited useful life).

If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset, the useful life of the asset is considered to be indefinite. The term indefinite does not mean infinite. An intangible asset with a finite useful life is amortized over that useful life; an intangible asset with an indefinite useful life is not amortized. We have no intangible assets with indefinite useful lives. Under U.S. GAAP, goodwill is not amortized.

Impairment of Goodwill and Other Long-Lived Assets. We review long-lived assets such as property, plant and equipment, intangible assets and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also review goodwill annually. U.S. GAAP requires that goodwill be tested, at a minimum, annually for each reporting unit. The first step in testing goodwill to assess qualitative factors to determine whether it is more likely than not that goodwill is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. If the first step indicates a quantitative test must be performed, the second step is to identify any potential impairment by comparing the carrying value of the reporting unit to its fair value. If a potential impairment is identified, the third step is to measure the impairment loss by comparing the implied fair value of goodwill with the carrying value of goodwill of the reporting unit. Alternatively, we may bypass the qualitative assessment in any period and proceed directly to performing the second step.

We performed our goodwill impairment test on October 1, 2016, by performing the first step, a qualitative impairment test, to determine whether it was more likely than not that goodwill was impaired. Goodwill is tested at a level of reporting referred to as the “reporting unit”. We have two reporting units, which are defined as the “at home” business and the “away from home” business. Based on this qualitative test, we determined it was more likely than not that the fair value of our reporting units were greater than their carrying amounts; as such, we determined that performing the second and third steps of the impairment test were not necessary and that goodwill was not impaired. In performing this qualitative assessment, we considered factors including, but not limited to, the following:

- Macroeconomic conditions, including general economic conditions, limitations on accessing capital, and other developments in equity and credit markets;
- Industry and market considerations, including any deterioration in the environment in which we operate, an increased competitive environment, a decline in market-dependent multiples or metrics, a change in the market for our products or services, and regulatory or political developments;
- Cost factors such as increases in raw materials, labor, exchange rates or other costs that have a negative effect on earnings and cash flows;
- Overall financial performance, including negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;
- Other relevant entity-specific events, such as changes in management, key personnel, strategy, customers, or litigation; and
- Whether a sustained, material decrease in share price had occurred.

Subsequent to October 1, 2016, we did not note any additional qualitative factors that would indicate that our goodwill was impaired.

New Accounting Pronouncements

Refer to the discussion of recently adopted/issued accounting pronouncements under Part I, Notes to Unaudited Interim Financial Statements Note 14 — New and Recently Adopted Accounting Pronouncements.

Non-GAAP Discussion

In addition to our GAAP results, we also consider non-GAAP measures of our performance for a number of purposes. The three non-GAAP financial measures used within this report are: (1) EBITDA, (2) Adjusted EBITDA and (3) Net Debt.

EBITDA and Adjusted EBITDA

We use EBITDA and Adjusted EBITDA as a supplemental measure of our performance that is not required by, or presented in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered as an alternative to net income, operating income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities or a measure of our liquidity.

EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization. Amortization of deferred debt issuance costs is included in net interest expense. Adjusted EBITDA represents EBITDA before non-cash stock compensation expense and sporadic expenses, such as foreign exchange adjustments and relocation costs. We believe EBITDA and Adjusted EBITDA facilitate operating performance comparisons from period to period by eliminating potential differences caused by variations in capital structures (affecting relative interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and book depreciation of facilities and equipment (affecting relative depreciation expense), non-cash compensation (affecting stock compensation expense) and sporadic expenses (including foreign exchange adjustments and relocation costs).

EBITDA and Adjusted EBITDA have limitations as an analytical tool, and you should not consider them in isolation, or as a substitute for any of our results as reported under GAAP. Some of these limitations include:

- they do not reflect our cash expenditures for capital assets;
- they do not reflect changes in, or cash requirements for, our working capital requirements;
- they do not reflect cash requirements for cash dividend payments;
- they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and
- other companies, including other companies in our industry, may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or to reduce our indebtedness. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA on a supplemental basis.

The following table reconciles EBITDA and Adjusted EBITDA to net income for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
	(In thousands, except % of net sales)	
Net income	\$ (860)	\$ 5,409
Plus: interest expense, net	517	263
Plus: income tax expense	(373)	2,811
Plus: depreciation	3,224	2,637
Plus: intangibles amortization	233	377
EBITDA	\$ 2,741	\$ 11,497
% of net sales	7.8%	24.1%
Plus: stock compensation expense	98	149
Plus: relocation costs	(6)	60
Plus: foreign exchange loss	(22)	-
Adjusted EBITDA	\$ 2,811	\$ 11,706
% of net sales	8.0%	24.5%

Adjusted EBITDA was \$2.8 million for the quarter ended March 31, 2017, compared to \$11.7 million for the same period in 2016. Adjusted EBITDA as a percent of net sales decreased to 8.0% for the first quarter of 2017, compared to 24.5% in the first quarter of 2016. EBITDA was \$2.7 million for the quarter ended March 31, 2017, compared to \$11.5 million for the same period in 2016. EBITDA as a percent of net sales was 7.8% in the first quarter of 2017, compared to 24.1% in the first quarter of 2016. The foregoing factors discussed in the net sales, cost of sales and selling, general and administrative expenses sections are the reasons for the increase.

Net Debt

We use Net Debt as a supplemental measure of our leverage that is not required by, or presented in accordance with, GAAP. Net Debt should not be considered as an alternative to total debt, total liabilities or any other performance measure derived in accordance with GAAP. Net Debt represents total debt reduced by cash and short-term investments. We use this figure as a means to evaluate our ability to repay our indebtedness and to measure the risk of our financial structure.

Net Debt represents the amount by which total debt (excluding deferred debt issuance costs) exceeds cash. The amounts included in the Net Debt calculation are derived from amounts included in the balance sheets. We have reported Net Debt because we regularly review Net Debt as a measure of our leverage. However, the Net Debt measure presented in this document may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

Net Debt increased from \$133.2 million on December 31, 2016, to \$147.8 million on March 31, 2017, primarily as a result of an increase in outstanding debt due to additional borrowings for capital expenditures and a decrease in cash, reflecting cash flows from investing activities in the first quarter of 2017.

The following table presents Net Debt as of March 31, 2017, and December 31, 2016:

Net Debt Reconciliation:	March 31, 2017	December 31, 2016
Current portion of long-term debt	\$ 8,511	\$ 6,728
Long-term debt	145,103	135,238
Total debt	153,614	141,966
Less cash	(5,777)	(8,750)
Net debt	<u>\$ 147,837</u>	<u>\$ 133,216</u>

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the information provided in response to Item 7A of our Form 10-K for the year ended December 31, 2016.

ITEM 4. Controls and Procedures

Our management, under the supervision and with the participation of our chief executive officer and our chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on such evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2017.

There were no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. In management's opinion, as of the date of this report, we were not engaged in any legal proceedings, which are expected, individually or in the aggregate, to have a materially adverse effect on us.

ITEM 1A. Risk Factors

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially affect our operations. Factors that could materially affect our actual results, levels of activity, performance or achievements include, but are not limited to, those detailed below, those under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC on March 15, 2017, as amended by our Amendment No. 1 to our Annual Report on Form 10-K/A, filed with the SEC on March 30, 2017, and those in our subsequent filings with the SEC. Such risks, uncertainties and other factors may cause our actual results, performances and achievements to be materially different from those expressed or implied by our forward-looking statements. If any of these risks or events occur, our business, financial condition or results of operations may be adversely affected.

The discussion below provides updates and additions to the risk factors and should be read together with the full list of risk factors set forth in the aforementioned Form 10-K/A:

We have indebtedness, which subjects us to restrictive covenants relating to the operation of our business.

As a result of closing the Fabrica Transaction, the expansion of our Pryor facility, and the construction of our South Carolina facility, our indebtedness is now substantially greater than our indebtedness prior to these events. At December 31, 2016, we had \$142.0 million of indebtedness. In 2017, under the terms of our existing loan agreement, we anticipate making principal payments of \$7.6 million and interest payments of more than \$6 million. Interest payments are principally variable with our leverage ratio and with LIBOR rates. Operating with this amount of leverage and with variable interest rates may require us to direct a significant portion of our cash flow from operations to service debt, which reduces the funds otherwise available for operations, capital expenditures, payment of dividends, the pursuit of future business opportunities and other corporate purposes. It may also limit our flexibility in planning for or reacting to changes in our business and our industry and may impair our ability to obtain additional financing.

The terms of our loan agreements require us to meet specified financial ratios and other financial and operating covenants, which restrict our ability to incur additional debt, place liens on our assets, make capital expenditures, effect mergers or acquisitions, dispose of assets or pay dividends in certain circumstances. The financial covenants include that we must maintain a certain debt to Adjusted EBITDA ratio for a given period. Adjusted EBITDA is defined in the Credit Agreement, and is as quoted by the Company. Specifically this covenant ratio requires that we maintain, as determined at the end of each of our fiscal quarters, a ratio of (i) the aggregate amount of all debt (exclusive of capitalized loan amortization fees), to (ii) (Adjusted) EBITDA of not less than 5.5:1, 4.5:1 and 3.5:1 for the periods ending September 30, 2017, December 31, 2017, and March 31, 2018 and each quarter thereafter, respectively. Our lender has waived this covenant ratio for the periods ended March 31, 2017 and June 30, 2017. The financial covenants also include that Fixed Charges, as defined in the Credit Agreement, will not exceed a ratio of an alternative Adjusted EBITDA figure, also defined in the Credit Agreement, of 1.0:1, 1.05:1 and 1.2:1 for the periods ended June 30, 2017, September 30, 2017, and December 31, 2017 and each quarter thereafter. If we fail to meet those financial ratios and covenants and our lenders do not waive them, we may be required to pay fees and penalties, and our lenders could accelerate the maturity of our debt and proceed against any pledged collateral, which could force us to seek alternative financing, or otherwise adversely affect our business operations and/or liquidity. If this were to happen, we may be unable to obtain additional financing or it may not be available on terms acceptable to us.

At December 31, 2016, our debt to Adjusted EBITDA ratio was 4.26, and the Fixed Charge Coverage ratio was 1.86. These ratios are highly sensitive to changes in Adjusted EBITDA, and relatively sensitive to levels of debt and Fixed Charges. If we do not comply with these covenants in the current quarter or future quarters, it could result in a default under the Credit Agreement, which may require us to seek and obtain a waiver from our lender, seek other amendments to our Credit Agreement, raise additional equity funds to pay-down debt, limit fixed charges inclusive of dividends, refinance the debt under more favorable terms, and/or undertake some combination of these in order to remain in compliance with the covenants. In such an event, there can be no assurance that we will be able to be successfully undertake such efforts and remain in compliance with the covenants, particularly in the short-term given the sensitivity to unforeseen changes in Adjusted EBITDA. Also, if a default under the Credit Agreement is not cured or waived, the default could result in the acceleration of debt under our Credit Agreement, which could require us to repay debt prior to the date it is otherwise due and could adversely affect our financial condition.

Additionally, our indebtedness is secured by all or substantially all of our assets. Therefore, if we default on any of our debt obligations, it could result in the lenders foreclosing on our assets. In such an event, the lenders' rights to such assets would likely be superior to those of our shareholders.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities

None.

(b) Initial Public Offering and Use of Proceeds from the Sale of Registered Securities

None.

(c) Repurchases of Equity Securities

We do not have any programs to repurchase shares of our common stock and no such repurchases were made during the three months ended March 31, 2017.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

See the Exhibit Index following the signature page to this Form 10-Q, which Exhibit Index is hereby incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ORCHIDS PAPER PRODUCTS COMPANY

Date: May 8, 2017

By: /s/ Rodney D. Gloss
Rodney D. Gloss
Chief Financial Officer
(On behalf of the registrant and as Chief Accounting Officer)

Exhibit Index

Exhibit	Description
10.1	Amendment No. 4, dated as of April 11, 2017, to Second Amended and Restated Credit Agreement, dated as of June 25, 2015, among Orchids and U.S. Bank National Association, as administrative agent, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (SEC Accession No. 0001144204-17-020742) filed with the SEC on April 17, 2017.
31.1	Certification of Chief Executive Officer Pursuant to Section 302.
31.2	Certification of Chief Financial Officer Pursuant to Section 302.
32.1	Certification of Chief Executive Officer Pursuant to Section 906.
32.2	Certification of Chief Financial Officer Pursuant to Section 906.
101	The following financial information from Orchids Paper Products Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016, (ii) Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016, (iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016, and (iv) Notes to Consolidated Unaudited Interim Financial Statements.

Certification of Chief Executive Officer Pursuant to Section 302

I, Jeffrey S. Schoen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orchids Paper Products Company (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: May 8, 2017

/s/ Jeffrey S. Schoen

Jeffrey S. Schoen
Chief Executive Officer and President

Certification of Chief Financial Officer Pursuant to Section 302

I, Rodney D Gloss, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orchids Paper Products Company (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 8, 2017

/s/ Rodney D. Gloss

Rodney D. Gloss
Chief Financial Officer

Certification of Chief Executive Officer Pursuant to Section 906

In connection with the quarterly report of Orchids Paper Products Company (the "Company") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey S. Schoen, Chief Executive Officer and President of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey S. Schoen
Jeffrey S. Schoen
Chief Executive Officer and President
May 8, 2017

Certification of Chief Financial Officer Pursuant to Section 906

In connection with the quarterly report of Orchids Paper Products Company (the "Company") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rodney D. Gloss, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rodney D. Gloss
Rodney D. Gloss
Chief Financial Officer
May 8, 2017
