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 September 30, 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	**23-2956944**
(State or Other Jurisdiction of Incorporation or Organization)	(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 October 31, 2017: 10,429,091 shares.

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QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash	$ 2,079	$ 8,750
Accounts receivable, net of allowance of $30 and $30, respectively	15,753	8,954
Receivables from related party	1,259	491
Inventories, net	20,884	18,414
Income taxes receivable	3,385	8,735
Prepaid expenses	1,222	925
Other current assets	204	868
Total current assets	44,786	47,137
Property, plant and equipment (including from consolidated VIE $17,415 and $16,237, respectively)	369,047	320,442
Accumulated depreciation	(80,816)	(71,258)
Net property, plant and equipment	288,231	249,184
Restricted cash (from consolidated VIE)	9	1,276
VAT receivable	227	212
Intangible assets, net of accumulated amortization of $4,178 and $3,479, respectively	13,812	14,511
Goodwill	7,560	7,560
Total assets	$ 354,625	$ 319,880
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Overdrafts	$ 563	$ -
Accounts payable	17,570	7,739
Accounts payable to related party	4,006	3,130
Accrued liabilities	3,147	2,545
Short-term notes payable	668	-
Current portion of long-term debt (Note 7)	169,392	6,728
Total current liabilities	195,346	20,142
Long-term debt including capital leases, less current portion (Note 7)	33	133,989
Other long-term liabilities (from consolidated VIE)	5,222	5,170
Deferred income taxes	24,364	27,334
Commitment and contingencies (Note 4)		
Stockholders' equity:		
Common stock, $.001 par value, 25,000,000 shares authorized, 10,429,091 and 10,296,891 shares issued and outstanding in 2017 and 2016, respectively	10	10
Additional paid-in capital	101,109	98,885
Retained earnings	28,541	34,350
Total stockholders' equity	129,660	133,245
Total liabilities and stockholders' equity	$ 354,625	$ 319,880

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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(Unaudited)			
Net sales	$ 45,172	$ 39,628	$ 118,969	$ 126,785
Cost of sales	42,432	33,413	112,746	102,316
Gross profit	2,740	6,215	6,223	24,469
Selling, general and administrative expenses	3,026	2,557	8,934	7,783
Intangibles amortization	233	233	699	986
Operating (loss) income	(519)	3,425	(3,410)	15,700
Interest expense	827	639	1,904	1,187
Other income, net	(42)	(162)	(324)	(527)
(Loss) income before income taxes	(1,304)	2,948	(4,990)	15,040
Provision for (benefit from) income taxes:				
Current	(7,806)	(3,670)	(19,003)	(1,772)
Deferred	5,797	4,405	16,215	6,622
	(2,009)	735	(2,788)	4,850
Net (loss) income	$ 705	$ 2,213	$ (2,202)	$ 10,190
Net (loss) income per common share:				
Basic	$ 0.07	$ 0.21	$ (0.21)	$ 0.99
Diluted	$ 0.07	$ 0.21	$ (0.21)	$ 0.98
Weighted average common shares used in calculating net income (loss) per common share:				
Basic	10,429,091	10,296,891	10,366,373	10,282,841
Diluted	10,429,091	10,367,660	10,366,373	10,351,415
Cash dividends declared per share	$ -	$ 0.35	$ 0.35	$ 1.05

See notes to unaudited consolidated interim financial statements.

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(Unaudited)	
Cash Flows From Operating Activities		
Net (loss) income	$ (2,202)	$ 10,190
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	10,650	9,865
Deferred income taxes	(2,970)	6,624
Stock compensation expense	365	604
Loss (gain) on disposal of property, plant and equipment	52	(18)
Changes in cash due to changes in operating assets and liabilities:		
Accounts receivable, including amounts due to related party	(7,567)	(1,541)
Inventories	(2,470)	(6,948)
Income taxes receivable	5,350	2,628
Prepaid expenses	(297)	(2,753)
Other assets	649	1,490
Accounts payable, including amounts due to related party	6,136	1,843
Accrued liabilities	600	(1,725)
Net cash provided by operating activities	8,296	20,259
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(44,104)	(74,115)
Proceeds from insurance settlement related to capital investment	51	-
Proceeds from sale of property, plant and equipment	-	21
Decrease in restricted cash	1,267	10,670
Net cash used in investing activities	(42,786)	(63,424)
Cash Flows From Financing Activities		
Proceeds from economic incentive	-	1,900
Principal payments on long-term debt	(3,415)	(2,745)
Net borrowings on revolving credit line	32,939	58,627
Borrowings on short-term notes	857	-
Payments on short-term notes	(189)	-
Net proceeds from follow-on stock offering	(35)	-
Net proceeds from at-the-market stock offering	1,760	-
Overdrafts	563	-
Dividends paid to stockholders	(3,607)	(10,797)
Proceeds from the exercise of stock options	134	314
Excess tax benefit of stock options exercised	-	171
Deferred debt issuance costs	(1,188)	(105)
Net cash provided by financing activities	27,819	47,365
Net increase (decrease) in cash	(6,671)	4,200
Cash, beginning	8,750	4,361
Cash, ending	$ 2,079	$ 8,561

See notes to unaudited consolidated interim financial statements.

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(Unaudited)	
Supplemental Disclosure:		
Interest paid	$ 5,072	$ 1,971
Income taxes refunded, net	$ (5,354)	$ 6
Tax benefits realized from stock options exercised	$ 59	$ 211
Capital expenditures invoiced but not yet paid	$ 4,839	$ 1,464

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 13), 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 American 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 and nine-month periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Products purchased under the Supply Agreement	$ 7,308	$ 8,003	$ 21,536	$ 26,447
Amounts billed to Fabrica under the Equipment Lease Agreement	$ 545	$ 518	$ 1,538	$ 1,242
Parent rolls purchased by Fabrica	$ 1,282	$ -	$ 3,116	$ 867

Goodwill

There were no changes to the $7.6 million goodwill recognized from the Fabrica Transaction during the three and nine-month periods ended September 30, 2017 and 2016. No goodwill impairment has been recorded as of September 30, 2017.

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 debt is estimated by management to approximate the carrying value (before deducting unamortized debt issuance costs) of $171.5 million and $142.0 million at September 30, 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. The remaining commitment under this contract is to purchase 117,055 MMBTUs at a price of 4.06 per MMBTU during the fourth quarter of 2017. Purchases under the gas contract were $0.5 million and $0.4 million for the three months ended September 30, 2017 and 2016, respectively, and $1.4 million and $1.2 million for the nine months ended September 30, 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 2015 the Company began construction on an integrated paper converting facility in Barnwell, South Carolina. As of September 30, 2017, obligations under open purchase orders for this project totaled $0.4 million.

Note 5 — Inventories

Inventories at September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Raw materials	$ 7,018	$ 4,855
Bulk paper rolls	4,133	3,765
Converted finished goods	9,873	9,859
Inventory valuation reserve	(140)	(65)
	$ 20,884	$ 18,414

Note 6 — Property, Plant and Equipment

Property, plant and equipment at September 30, 2017 and December 31, 2016 was:

	September 30, 2017	December 31, 2016
	(In thousands)	
Land	$ 1,316	$ 1,316
Buildings and improvements	38,241	37,356
Machinery and equipment	190,949	186,863
Vehicles	1,830	1,830
Nondepreciable machinery and equipment (parts and spares)	12,397	11,976
Construction-in-process	124,314	81,101
	$ 369,047	$ 320,442

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 September 30, 2017 and 2016, excludes $1.6 million and $0.3 million, respectively, of interest capitalized on significant projects during the quarter. Capitalized interest for nine months ended September 30, 2017 and 2016, was $3.5 million and $1.2 million, respectively.

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. 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 delayed draw loan of $108.5 million was fully drawn in October of 2017.) The resultant covenants, which are currently still in effect, are summarized in the following paragraph. In June 2017, the Company entered into Amendment No. 5, which, among other things, waived the required fixed charge coverage ratio for the period ended June 30, 2017. Additionally, the Company agreed not to make any dividend or other distribution payment with respect to its equity unless the Company has achieved a Leverage Ratio of less than 4.0:1.0 for two consecutive fiscal quarters and no Default or Event of Default (as defined in the Credit Agreement) exists or would exist following such payment. The amount and timing of dividend payments otherwise remains subject to the judgment and approval of the Board of Directors.

At September 30, 2017, the Company was not in compliance with certain financial covenants under its Credit Agreement and New Market Tax Credit Financing Agreement. The financial covenants under the Credit Agreement, as amended, required the Company to maintain a minimum fixed charge coverage ratio of 1.05 to 1.0 and a maximum leverage ratio of 5.5 to 1.0 at September 30, 2017. The Company’s leverage ratio was 10.9, and the fixed charge coverage ratio was (1.4) as of September 30, 2017. On November 7, 2017, the Company entered into Amendment No. 6, which, in addition to providing a waiver for the existing defaults, provides for a minimum EBITDA covenant, amends the pricing schedule, and amends certain reporting requirements. Including the amendments incorporated into this waiver, the Company’s credit facilities have been amended for each of the last four quarters. The financial covenant requirements in effect at this time require the Company to maintain the following: fixed charge coverage ratios of 1.05 to 1 at September 30, 2017 and 1.2 to 1 at December 31, 2017 and quarter-ends thereafter, leverage ratios of 5.5 to 1, 4.5 to 1, and 3.5 to 1 at September 30, 2017, December 31, 2017, and March 31, 2018 and quarter-ends thereafter, respectively; minimum EBITDA for the most recent three-month period of $4.0 million, $4.8 million, and $5.0 million at October 31, 2017, November 30, 2017, and December 31, 2017 and as of the last day of each month thereafter, respectively.

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

The Company is seeking to refinance its existing long-term debt obligations within the fourth quarter of 2017. The Company may also need to seek another waiver of these and other financial covenants for the fourth quarter of 2017 in order to continue operating under the existing terms of the credit facilities. If the Company is unable to obtain another waiver of these financial covenants and/or a refinancing is not completed, the bank syndicate could declare a default. There can be no assurance that the Company's lenders will agree to further waivers or amendments to the existing debt covenants. While management intends to amend or refinance the debt, there can be no assurance that the Company will be able to obtain additional financing on terms that are satisfactory to it or at all. As of September 30, 2017, the borrowings under the Credit Agreement and the term loan otherwise due in 2022 were classified as current on the balance sheet due to these uncertainties regarding the Company's ability to meet the existing debt covenants over the next twelve-month period.

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 beginning in September 2017 in quarterly installments 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 13), 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.

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 but less than 6.00	4.00%	1.75%	0.50%
Greater than or equal to 6.00	6.00%	3.75%	0.55%

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 September 30, 2017, the Company's weighted-average interest rate was 5.19%.

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

Long-term debt at September 30, 2017 and December 31, 2016 consists of:

	September 30, 2017	December 31, 2016
	(In thousands)	
Revolving line of credit, maturing on June 25, 2020	$ 16,791	$ 16,447
Delayed draw term loan, maturing on June 25, 2020	104,937	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	39,600	42,600
Term loan, maturing on December 29, 2022, due in quarterly installments of $255,006, including interest	10,162	10,577
Capital lease obligations	33	-
Less: unamortized debt issuance costs	(2,098)	(1,249)
	169,425	140,717
Less current portion	169,392	6,728
	$ 33	$ 133,989

Unamortized debt issuance costs consist of:

	September 30, 2017	December 31, 2016
	(In thousands)	
Revolving line of credit	$ 505	$ 229
Delayed draw term loan, maturing on June 25, 2020	722	283
Term loan, maturing on June 25, 2020	320	146
Term loan, maturing on December 29, 2022	551	591
	$ 2,098	$ 1,249

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 September 30, 2017, the Company's borrowing base was $22.4 million, including $12.4 million of eligible accounts receivable and $10.0 million of eligible inventory. The amount available under the revolving credit line was $5.6 million as of September 30, 2017.

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 Company has the right to prepay borrowings under the Credit Agreement at any time without penalty.

Note 8 — Income Taxes

As of September 30, 2017, our annual estimated effective income tax benefit rate was 55.9%, which reflects the combined impact of the Company's pre-tax loss position combined with the recognition of tax credits. 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 September 30, 2016, our annual estimated effective income tax rate was 32.25%. The annual estimated effective tax rate for 2016 differed from the statutory rate primarily due to state investment tax credits, federal credits and foreign tax credits.

Note 9 — Earnings per Share

The computation of basic and diluted net income per common share for the three and nine-month periods ended September 30, 2017 and 2016 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except share and per share data)			
Net income (loss)	$ 705	$ 2,213	$ (2,202)	$ 10,190
Weighted average shares outstanding	10,429,091	10,296,891	10,366,373	10,282,841
Effect of stock options*	-	70,769	-	68,574
Weighted average shares outstanding - assuming dilution	10,429,091	10,367,660	10,366,373	10,351,415
Net income (loss) per common share:				
Basic	$ 0.07	$ 0.21	$ (0.21)	$ 0.99
Diluted	$ 0.07	$ 0.21	$ (0.21)	$ 0.98
Stock options not considered above because they were anti-dilutive*	939,425	511,250	939,425	516,250

*For the three months and nine months ended September 30, 2017, potentially dilutive shares from options were excluded from the diluted earnings per share calculations due to the antidilutive effect such shares would have on net loss per common share.

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 September 30, 2017, there were 49,575 shares available for issuance under the 2014 Plan.

Note 10 — Stock Incentives (continued)

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 nine months ended September 30, 2017 and 2016. There were 13,500 options exercised during the nine months ended September 30, 2017, with a weighted average exercise price of $9.91.

Grant Date	Number of Shares	Exercise Price	Grant Date Fair Value	Risk-Free Interest Rate	Estimated Volatility	Dividend Yield	Expected Life (years)
July 2017	76,500	$ 12.22	$ 2.31	1.94% - 2.08%	33.7% - 33.9%	5.12% - 5.15%	5 yrs to 6 yrs
May 2017	40,000	$ 19.945	$ 3.40	1.81%	32%	5.26%	5
September 2016	20,000	$ 28.48	$4.28 - $4.83	1.21% - 1.50%	29% - 31%	4.92%	5 yrs to 7 yrs
May 2016	40,000	$ 31.33	$ 7.57	1.74%	40%	4.47%	5
January 2016	5,000	$ 27.77	$ 6.56	2.00%	40%	5.04%	5

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 nine months ended September 30, 2017 or 2016. During the nine months ended September 30, 2016, 22,500 options with market-based vesting conditions vested when the Company's stock price closed above $34.788 per share for three consecutive business days. Additionally, 1,875 options and 20,550 options with market-based vesting conditions were forfeited during the nine months ended September 30, 2017 and 2016, respectively, when employees 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 nine months ended September 30, 2017 or 2016. During the nine months ended September 30, 2016, 100,000 options with market-based vesting conditions vested when the Company's stock price closed above $34.788 per share for three consecutive business days.

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Time-based vesting options	$ 103	$ 47	$ 298	$ 409
Market-based vesting options	(4)	22	67	191
Total compensation expense related to stock options	$ 99	$ 69	$ 365	$ 600

Note 10 — Stock Incentives (continued)

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 vested ratably over a three-year period beginning on the first anniversary of the grant date. 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 nine months ended September 30, 2016, related to shares of restricted stock granted.

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 for the three and nine-month periods ended September 30, 2017 and 2016 were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Converted product net sales	$ 42,007	$ 38,284	$ 109,602	$ 122,867
Parent roll net sales	3,165	1,344	9,367	3,918
Total net sales	$ 45,172	$ 39,628	$ 118,969	$ 126,785

Credit risk for the Company in the three and nine-month periods ended September 30, 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Converted product customer 1	28%	34%	30%	35%
Converted product customer 2	15	16	15	14
Converted product customer 3	21	*	15	*
Total percent of net sales	64%	50%	60%	49%

*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 and nine-month periods ended September 30, 2017 and 2016.

At September 30, 2017 and December 31, 2016, the significant customers accounted for the following amounts of the Company's accounts receivable (in thousands):

	September 30, 2017		December 31, 2016	
Converted product customer 1	$ 3,621	22%	$ 3,703	41%
Converted product customer 2	2,716	16	*	*
Converted product customer 3	4,174	25	*	*
Total of accounts receivable	$ 10,511	63%	$ 3,703	41%

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

At September 30, 2017 and December 31, 2016, no additional customers accounted for more than 10% of the Company's accounts receivable.

Note 12 — "At the Market" Stock Offering Program

In May 2017, the Company established an "at the market" stock offering program ("ATM Program") through which it may, from time to time, issue and sell shares of its common stock having an aggregate gross sales price of up to $40.0 million through its sales agent. Sales of the shares of common stock may be made on the NYSE American Stock Exchange at market prices and such other sales as agreed upon by us and the sales agent. The Company intends to use the net proceeds from sales under the ATM Program for general corporate purposes, which may include, among other things, repayment of debt; strategic investments and acquisitions; capital expenditures; or for other working capital requirements. During the quarter ended September 30, 2017, no shares of common stock were sold under the ATM Program. During the nine months ended September 30, 2017, 118,700 shares of common stock were sold under the ATM Program at a weighted average price of $16.90, generating net proceeds of $1.8 million after giving effect to $0.2 million in sales agent commissions and other stock issuance costs. As of September 30, 2017, $38.0 million of common stock remained available for issuances under the ATM Program.

Note 13 — 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 has used 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 September 30, 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. At September 30, 2017 and December 31, 2016, the outstanding balance of the amount borrowed from U.S. Bank to loan to the investment fund was $10.2 million and $10.6 million, respectively, and approximately $0.6 million and $0.6 million, respectively, of unamortized debt issuance costs related to the above transactions are being amortized over the life of the agreements. At December 31, 2016, unspent proceeds from the arrangement of approximately $1.3 million were obligated for funding the specified capital assets at the Barnwell facility and were included in restricted cash. As of September 30, 2017, all proceeds from the arrangement have been used to fund capital assets associated with the Barnwell facility.

Note 14 – 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 September 30, 2017 and December 31, 2016, the Company had a note receivable of $0.1 million and $0.5 million, respectively, related to amounts due under the ODFA pooled financing agreement. The Company recognized $0.1 million and $0.2 million of other income in the consolidated statements of operations for the three months ended September 30, 2017 and 2016, respectively, and $0.4 million and $0.5 million for the nine months ended September 30, 2017 and 2016, respectively, related to this agreement.

Note 15 — 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 2017-00 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.

Note 15 — New and Recently Adopted Accounting Pronouncements (continued)

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.

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. ASU 2014-09 and all subsequently issued clarifying ASUs will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method upon adoption. Management intends to adopt ASU 2014-09 on January 1, 2018, using the modified retrospective method of adoption. Although the Company has not completed a review of individual customer contracts, management believes that the impact of adopting ASU 2014-09 on the Company’s consolidated financial statements will not be material as these transactions generally consist of a single performance obligation to deliver tangible goods. Management does not expect significant changes in the timing or method of revenue recognition or a need to significantly change any accounting policies or practices. Furthermore, management does not expect significant changes to accounting systems or controls upon adoption of ASU 2014-09. Management will continue to evaluate the impact of ASU 2014-09, including new or emerging interpretations of the standard, through the date of adoption.

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;
- 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. 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. In 2015 and 2016, we invested approximately $39 million at this facility for a paper machine and a converting line. The new paper machine, that could run higher volumes and be more efficient, lessened our per unit cost and provided 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 vertically integrated tissue operation in Barnwell, South Carolina. The converting lines in the Barnwell facility started up in 2016; the mill started up in June of 2017; and a fiber processing plant is expected to be completed by early November 2017. The operational ramp-up of all sections of the facility is expected to be completed in the fourth quarter of 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, which began production during the third quarter of 2017, 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 $164 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.

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, Family Dollar and Walmart, which accounted for 60% of our total sales in the first nine months 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. Our expanded target region, the Sun-Belt, has experienced strong population growth in the past years relative to the national average, and this trend is 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 who maintains and advances competitive advantages. 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 and improving upon a low variable cost and moderate fixed cost position, using operating leverage to optimize margins;
- maintaining and developing flexible, integrated facilities able to produce a broad product spectrum;

- harvesting the benefits of expanding our manufacturing footprint via the Fabrica Transaction in 2014, the upgrades of equipment in Pryor in 2015, and our greenfield expansion in South Carolina in 2017; and
- employing a disciplined capital strategy by focusing on growing free cash flow and targeting high return capital projects.

We attempt to maximize and optimize the converted product sales, selling mill production as parent rolls only when we have excess paper-making capacity. Part of our strategy to optimize converted product sales 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. Prior to the completion of the Barnwell, South Carolina paper mill, we have only had the capability to manufacture a relatively small volume of structured tissue / ultra-premium products through the Supply Agreement with Fabrica. With the completion of the mill at the Barnwell, South Carolina facility, we expect to be able to produce and sell 35,000 tons or more of the best ultra-premium grade paper at relatively higher margins in 2018.

Comparative Three-Month Periods Ended September 30, 2017 and 2016

Net Sales

	Three Months Ended September 30,	
	2017	2016
	(In thousands)	
Converted product net sales	$ 42,007	$ 38,284
Parent roll net sales	3,165	1,344
Total net sales	$ 45,172	$ 39,628

Net sales increased $5.5 million, or 14%, in the third quarter of 2017 compared to the same period in the prior year. Converted product sales increased $3.7 million as a result of the continuing ramp-up of previously announced new private-label business. Net sales of converted product benefitted approximately $4.2 million from increased volume, while a lower average selling price per ton had a negative impact of approximately $0.5 million. Parent roll sales increased $1.8 million, resulting from ramping-up capacity at the new mill in Barnwell, South Carolina. We generally endeavor to run our paper-making mills at capacity, and production that is not needed to support converted product sales is sold as parent rolls.

Cost of Sales

	Three Months Ended September 30,	
	2017	2016
	(in thousands, except gross profit margin %)	
Cost of goods sold	$ 39,315	$ 30,504
Depreciation	3,117	2,909
Cost of sales	$ 42,432	$ 33,413
Gross profit	$ 2,740	$ 6,215
Gross profit margin %	6.1%	15.7%

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 increased $9.0 million, or 27%, in the third quarter of 2017 compared to the same period in the prior year. Standard cost of sales increased $4.4 million, or 15%, consistent with the change in sales. Major contributors to the remaining $4.6 million increase in cost of sales included: approximately $1.4 million of increased freight cost based on changes in customer and geographic distributions; approximately $1.7 million of increased material costs, principally for virgin fiber; approximately $1.9 million of increased overhead costs not covered by production and sales; and other factors such as inventory obsolescence resulting from changes in customers' product lines, certain manufacturing efficiency variances, and increased fiber and utility costs in the Mexicali operations. Partially offsetting these noted changes in costs were approximately $1.3 million of capitalized variances that were directly attributable to preproduction test runs necessary to get Barnwell's new equipment ready for its intended use.

Gross Profit

Gross profit for the quarter ended September 30, 2017 decreased $3.5 million, or 56%, to $2.7 million compared to $6.2 million for the same period last year. Gross profit as a percentage of net sales in the 2017 quarter was 6.1% compared to 15.7% in the 2016 quarter. The decline in gross profit as a percent of net sales was due both to the decrease in the average selling price per ton and cost increases, both temporary and continuing, as referenced in the discussion of cost of sales above.

Selling, General and Administrative Expenses

	Three Months Ended September 30,	
	2017	2016
	(In thousands, except SG&A as a % of net sales)	
Commission expense	$ 219	$ 271
Other selling, general & administrative expense	2,807	2,286
Selling, general & administrative expenses (SG&A)	$ 3,026	$ 2,557
SG&A as a % of net sales	6.7%	6.5%

Selling, general and administrative expenses include salaries, commissions to brokers and other miscellaneous expenses. Selling, general and administrative expenses increased to $3.0 million for the quarter ended September 30, 2017, from $2.6 million for the same period in 2016. As a percentage of net sales, selling, general and administrative expenses were 6.7% in the third quarter of 2017 compared to 6.5% for the same period in 2016, principally due to contributions of excess inventory to support hurricane relief efforts and increased legal and professional fees.

Amortization of Intangibles

We recognized $0.2 million of amortization expense related to the intangible assets acquired in the Fabrica Transaction during each of the quarters ended September 30, 2017 and 2016, respectively.

Operating (Loss) Income

As a result of the foregoing factors, operating loss for the quarter ended September 30, 2017, was $0.5 million compared to operating income of $3.4 million for the same period of 2016.

Interest Expense and Other Income

	Three Months Ended September 30,	
	2017	2016
	(In thousands)	
Interest expense	$ 827	$ 639
Other (income) expense, net	(42)	(162)
Income (loss) before income taxes	$ (1,304)	$ 2,948

Interest expense includes interest on all debt and amortization of deferred debt issuance costs. Interest expense for the third quarter of 2017 totaled $0.8 million compared to $0.6 million for the same period in 2016. Interest expense for the third quarter of 2017 excludes $1.6 million of interest capitalized on significant projects during the quarter compared to $0.3 million 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. Our interest rate is largely variable and dependent upon our financial leverage, and was 5.2% at the end of the third quarter of 2017.

Other (income) expense for the three months ended September 30, 2017 and 2016 included $0.1 million and $0.2 million, 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 $1.3 million for the quarter ended September 30, 2017, compared to income before income taxes of $2.9 million for the same period in 2016.

Income Tax Provision

As of September 30, 2017, our annual estimated effective income tax benefit rate was 55.9%, which reflects the impact of our pre-tax loss position combined with the recognition of tax credits. The annual estimated effective tax rate for 2017 differed from the statutory rate due primarily to state investment tax credits, federal credits and foreign tax credits. As of September 30, 2016, our annual estimated effective income tax rate was 32.25%. The annual estimated effective tax rate for 2016 differed from the statutory rate primarily due to state investment tax credits, federal credits and foreign tax credits.

Comparative Nine-month Periods Ended September 30, 2017 and 2016

Net Sales

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Converted product net sales	$ 109,602	$ 122,867
Parent roll net sales	9,367	3,918
Total net sales	$ 118,969	$ 126,785

Net sales for the nine months ended September 30, 2017, decreased $7.8 million, or 6%, compared to the same period in 2016, primarily due to heavy promotional activity by brand-competitors and other competitive pressures. Converted product net sales decreased $13.3 million, or 11%, to $109.6 million for the nine months ended September 30, 2017. The decrease reflects a 6% decrease in average tons sold combined with a 5% decrease in the average price per ton. Parent roll sales were $9.4 million for the nine months ended September 30, 2017, compared to $3.9 million for the same period in 2016, reflecting a 167% increase in sales volume net of a 10% decrease in the average price per ton.

Cost of Sales

	Nine Months Ended September 30,	
	2017	2016
	(in thousands, except gross profit margin %)	
Cost of goods sold	$ 103,188	$ 93,675
Depreciation	9,558	8,641
Cost of sales	$ 112,746	$ 102,316
Gross profit	$ 6,223	$ 24,469
Gross profit margin %	5.2%	19.3%

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 for the nine months ended September 30, 2017, increased $10.4 million, or 10%, compared to the same period in 2016. Converted-product tons sold and net sales dollars decreased by 6%, and if cost of sales had followed suit, cost of sales would have declined approximately $6.4 million; however, costs of converted products increased for the following reasons, adding approximately $11.9 million to the cost of sales: most notably, the addition of labor, overhead, and start-up costs for Barnwell, not yet being offset by production and sales; fiber and other material usage and price increases; increased freight cost based on changes in customer and geographic distributions; and other factors such as inventory obsolescence resulting from changes in customers' product lines, certain manufacturing efficiency variances, increased fiber and utility costs in the Mexicali operations; and health-care cost increases. Partially offsetting these noted changes in costs were approximately $1.3 million of capitalized variances that were directly attributable to preproduction test runs necessary to get Barnwell's new equipment ready for its intended use. The 2016 cost of sales for converted products benefitted from the favorable impact of $1.1 million in business interruption proceeds received due to an incident that occurred in our Oklahoma converting facility in 2015. Standard cost of sales for parent rolls increased $3.8 million, reflecting the 167% increase in sales volume net of a 20% decrease in the standard cost per ton.

Gross Profit

Gross profit for the nine months ended September 30, 2017 decreased $18.3 million, or 75%, to $6.2 million compared to $24.5 million for the same period last year. Gross profit as a percentage of net sales in the 2017 period was 5.2% compared to 19.3% in the 2016 period. The decline in gross profit as a percent of net sales was primarily due to the higher average production cost per unit combined with the decrease in the average selling price per ton. The increase in production costs was primarily due to the previously discussed impacts of the Barnwell facility coming on-line and the effect of under-utilization of production facilities in 2017.

Selling, General and Administrative Expenses

	Nine Months Ended September 30,	
	2017	2016
	(In thousands, except SG&A as a % of net sales)	
Commission expense	$ 615	$ 884
Other selling, general & administrative expense	8,319	6,899
Selling, general & administrative expenses (SG&A)	$ 8,934	$ 7,783
SG&A as a % of net sales	7.5%	6.1%

Selling, general and administrative expenses include salaries, commissions to brokers and other miscellaneous expenses. Selling, general and administrative expenses increased to $8.9 million for the nine months ended September 30, 2017, from $7.8 million for the same period in 2016. As a percentage of net sales, selling, general and administrative expenses increased to 7.5% for the first nine months of 2017 compared to 6.1% for the same period in 2016, reflecting contributions of excess inventory to support hurricane relief efforts and increased legal and professional fees, employee costs, and marketing efforts in 2017, freight and distribution costs, and increases in the prices and usage of materials.

Amortization of Intangibles

We recognized $0.7 million and $1.0 million of amortization expense related to the intangible assets acquired in the Fabrica Transaction during the nine months ended September 30, 2017 and 2016, respectively.

Operating (Loss) Income

As a result of the foregoing factors, operating loss for the nine months ended September 30, 2017, was $3.4 million compared to operating income of $15.7 million for the same period of 2016.

Interest Expense and Other Income

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Interest expense	$ 1,904	$ 1,187
Other (income) expense, net	(324)	(527)
Income (loss) before income taxes	(4,990)	15,040

Interest expense includes interest on all debt and amortization of deferred debt issuance costs. Interest expense for the nine months ended September 30, 2017, was $1.9 million compared to interest expense of $1.2 million for the same period in 2016. Interest expense for the nine months ended September 30, 2017, excluded $3.5 million of interest capitalized on significant projects during 2017 compared to $1.2 million 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 nine months ended September 30, 2017 and 2016 included $0.4 million and $0.5 million, respectively, of income related to our pooled financing agreement with ODFA.

(Loss) Income Before Income Taxes

As a result of the foregoing factors, loss before income taxes was $5.0 million for the nine months ended September 30, 2017, compared to income before income taxes of $15.0 million for the same period in 2016.

Income Tax Provision

As of September 30, 2017, our annual estimated effective income tax rate was 55.9%, which reflects the impact of our pre-tax loss position combined with the recognition of tax credits. The annual estimated effective tax rate for 2017 differed from the statutory rate primarily due to state investment tax credits, federal credits and foreign tax credits. As of September 30, 2016, our annual estimated effective income tax rate was 32.25%. The annual estimated effective tax rate for 2016 differed from the statutory rate primarily due to state investment tax credits, federal credits and foreign tax credits.

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, the availability of 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.

Largely completed in the third quarter of 2017, the most significant event affecting 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 $164 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 National Association (“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 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. (The delayed draw loan of $108.5 million was fully drawn in October of 2017.) The resultant financial covenants, which are currently still in effect, are provided in the following paragraph. In June 2017, we entered into Amendment No. 5, which, among other things, waived the required fixed charge coverage ratio for the period ended June 30, 2017. Additionally, we agreed not to make any dividend or other distribution payment with respect to our equity unless we have achieved a Leverage Ratio of less than 4.0:1.0 for two consecutive fiscal quarters and no Default or Event of Default (as defined in the Credit Agreement) exists or would exist following such payment. The amount and timing of dividend payments otherwise remains subject to the judgment and approval of the Board of Directors.

At September 30, 2017, we were not in compliance with certain financial covenants under our Credit Agreement and New Market Tax Credit Financing Agreement. The financial covenants under the Credit Agreement, as amended, required us to maintain a minimum fixed charge coverage ratio of 1.05 to 1.0 and a maximum leverage ratio of 5.5 to 1.0 at September 30, 2017. Our leverage ratio was 10.9, and our fixed charge coverage ratio was (1.4) as of September 30, 2017. On November 7, 2017, we entered into Amendment No. 6, which, in addition to providing a waiver for the existing defaults, provides for a minimum EBITDA covenant, amends the pricing schedule, and amends certain reporting requirements. Including the amendments incorporated into this waiver, our credit facilities have been amended for each of the last four quarters. The financial covenant requirements in effect at this time require us to maintain the following: fixed charge coverage ratios of 1.05 to 1 at September 30, 2017 and 1.2 to 1 at December 31, 2017 and quarter-ends thereafter, leverage ratios of 5.5 to 1, 4.5 to 1, and 3.5 to 1 at September 30, 2017, December 31, 2017, and March 31, 2018 and quarter-ends thereafter, respectively; minimum EBITDA for the most recent three-month period of $4.0 million, $4.8 million, and $5.0 million at October 31, 2017, November 30, 2017, and December 31, 2017 and as of the last day of each month thereafter, respectively.

We are seeking to refinance our existing long-term debt obligations within the fourth quarter of 2017. We may also need to seek another waiver of these and other financial covenants for the fourth quarter of 2017 in order to continue operating under the existing terms of the credit facilities. If we are unable to obtain another waiver of these financial covenants and/or a refinancing is not completed, the bank syndicate could declare a default. There can be no assurance that our lenders will agree to further waivers or amendments to the existing debt covenants. While management intends to amend or refinance the debt, there can be no assurance that we will be able to obtain additional financing on terms that are satisfactory to us or at all. As of September 30, 2017, the borrowings under the Credit Agreement and the term loan otherwise due in 2022 were classified as current on the balance sheet due to these uncertainties regarding our ability to meet the existing debt covenants over the next twelve-month period.

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 beginning in September 2017 in quarterly installments of 1.5% of the outstanding balance as of defined measurement dates through the extended draw period ending December 25, 2017.

In December 2015, we entered into an NMTC transaction, which provided $16.2 million of loan proceeds. These proceeds were used to finance capital expenditures associated with our South Carolina facility. This transaction allowed us to fix the interest on $11.1 million of our 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 nine months ended September 30, 2017, cash, net of overdrafts, decreased $7.2 million, to $1.5 million at September 30, 2017, compared to $8.8 million at December 31, 2016. During the year-to-date 2017 period, we incurred $44.1 million of capital expenditures and received $29.5 million of borrowings under our revolving credit facility, net of principal repayments.

As of September 30, 2017, total debt outstanding was $171.5 million. Cash, net of overdrafts, as of September 30, 2017, totaled $1.5 million, resulting in a net debt level of $170.0 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 $16.8 million and $104.9 million outstanding under our $25.0 million revolving line of credit and our $108.5 million delayed draw term loan, respectively, as of September 30, 2017. The amount available under our revolving credit line was $5.6 million as of September 30, 2017. The amount available under our delayed draw loan was $2.0 million as of September 30, 2017. (The delayed draw loan was fully drawn in October of 2017.)

The following table summarizes key cash flow information for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,	
	2017	**2016**
	(In thousands)	
Cash flow provided by (used in):		
Operating activities	$ 8,296	$ 20,259
Investing activities	(42,786)	(63,424)
Financing activities	27,819	47,365

Cash flows provided by operating activities were $8.3 million for the nine months ended September 30, 2017. Operating cash flows reflected cash earnings (adjusted for non-cash depreciation and amortization) net of changes in deferred income taxes for the nine months ended September 30, 2017. These effects were partially offset by changes in working capital, which provided $2.4 million of operating cash flows, largely due to a decrease in income taxes receivable combined with an increase in accounts payable, net of increases in accounts receivable and inventories. The decrease in income tax receivable of $5.4 million is a non-cash transaction that will not affect cash flows until a future year. The increases in accounts receivable and inventories were necessary to support new production and sales that largely commenced in the second half of 2017.

Cash flows used in investing activities were $42.8 million for the nine months ended September 30, 2017, due to expenditures on capital projects during the period, primarily associated with the Barnwell, South Carolina facility.

Cash flows provided by financing activities were $27.8 million for the nine months ended September 30, 2017, primarily due to $32.9 million of borrowings under our credit facility, less $3.4 million of principal debt repayments and $3.6 million of cash dividends paid to stockholders.

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. Additionally, in June 2017 we entered into Amendment No. 5 to the Credit Agreement, which restricts our ability to make any dividend or other distribution payment with respect to our equity unless we have achieved a Leverage Ratio of less than 4.0:1.0 for two consecutive fiscal quarters and no Default or Event of Default (as defined in the Credit Agreement) exists or would exist following such payment. The amount and timing of dividend payments otherwise remains subject to the judgment and approval of the 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 our 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 were $20.3 million for the nine months ended September 30, 2016, Operating cash flows reflected cash earnings (adjusted for non-cash depreciation and amortization) and an increase in deferred income taxes for the nine months ended September 30, 2016. These effects were partially offset by changes in working capital, which used $7.0 million of operating cash flows, primarily reflecting increases in inventories due, in part, to the start-up of converting operations at the Barnwell, South Carolina facility.

Cash flows used in investing activities in the first nine months of 2016 included $74.1 million of expenditures on capital projects during the period, partially offset by the release of $10.7 million of restricted cash to finance capital expenditures associated with our South Carolina facility.

Cash flows provided by financing activities were $47.4 million for the nine months ended September 30, 2016, primarily due to $58.6 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 $2.7 million of principal payments on long-term debt and $10.8 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 both the nine months ended September 30, 2017 and 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 net realizable value 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 nine months of 2017, the inventory allowance was increased $0.4 million based on a specific review of estimated slow moving or obsolete inventory items and was decreased $0.3 million due to actual write-offs of obsolete inventory items, resulting in a net increase in the allowance of $0.1 million. During the first nine months of 2016, the inventory allowance was increased $0.3 million based on a specific review of estimated slow moving or obsolete inventory items and was decreased $0.2 million due to actual write-offs of obsolete and unrealizable inventory items, resulting in a net increase in the allowance of approximately $0.1 million.

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.

In accordance with ASC 360-10, the Company is required to evaluate for impairment when events or changes in circumstances indicate that the carrying value of an asset group may not be recoverable. Upon the occurrence of a triggering event, the Company assesses whether the estimated undiscounted cash flows expected from the use of the asset group and the residual value from the ultimate disposal of the asset group exceeds the carrying value. In 2017, the Company considered cost overruns on the Barnwell, South Carolina project of approximately 30% to be a triggering event and evaluated the project for impairment. The Company estimated undiscounted cash flows related to the asset group, which was determined to be both the Pryor and Barnwell mill and converting assets as they do not generate distinct cash flows. Based on the estimated undiscounted cash flows of this asset group, it was determined that the recoverable amount exceeded the carrying amount of those assets, and therefore no further analysis was necessary.

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.

We granted options to purchase 116,500 and 65,000 shares of our common stock for the nine months ended September 30, 2017 and 2016, respectively. We recorded stock-based compensation expense of $0.4 million and $0.6 million during the nine months ended September 30, 2017 and 2016, respectively, in connection with option grants.

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 $12.22 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 historical daily volatilities of our common stock for a period of time reflective of the expected option term, 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 exercises 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 marked-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 September 30, 2017, we had goodwill of $7.6 million and identifiable intangible assets, net of accumulated amortization, of $13.8 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 15 — 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 and nine-month periods ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In thousands, except % of net sales)			
Net (loss) income	$ 705	$ 2,213	$ (2,202)	$ 10,190
Plus: interest expense, net	827	639	1,904	1,187
Plus: income tax (benefit) expense	(2,009)	735	(2,788)	4,850
Plus: depreciation	3,117	2,909	9,558	8,641
Plus: intangibles amortization	233	233	699	986
EBITDA	$ 2,873	$ 6,729	$ 7,171	$ 25,854
% of net sales	6.4%	17.0%	6.0%	20.4%
Plus: stock compensation expense	99	69	365	604
Plus: relocation costs	(50)	296	(126)	635
Plus: Barnwell start-up costs	975	-	2,047	-
Plus: foreign exchange loss	1	-	(44)	-
Plus: severance from reduction in force	-	-	59	-
Adjusted EBITDA	$ 3,898	$ 7,094	$ 9,472	$ 27,093
% of net sales	8.6%	17.9%	8.0%	21.4%

Adjusted EBITDA was $3.9 million for the quarter ended September 30, 2017, compared to $7.1 million for the same period in 2016. Adjusted EBITDA as a percent of net sales decreased to 8.6% for the third quarter of 2017, compared to 17.9% for the third quarter of 2016. EBITDA was $2.9 million for the quarter ended September 30, 2017, compared to $6.7 million for the same period in 2016. EBITDA as a percent of net sales was 6.4% for the third quarter of 2017, compared to 17.0% for the third 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.

Adjusted EBITDA was $9.5 million for the nine months ended September 30, 2017, compared to $27.1 million for the same period in 2016. Adjusted EBITDA as a percent of net sales decreased to 8.0% for the first nine months of 2017, compared to 21.4% for the first nine months of 2016. EBITDA was $7.2 million for the nine months ended September 30, 2017, compared to $25.9 million for the same period in 2016. EBITDA as a percent of net sales was 6.0% for the first nine months of 2017, compared to 20.4% for the first nine months 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 $170.0 million on September 30, 2017, primarily as a result of an increase in outstanding debt and a decrease in cash, reflecting additional borrowings for capital expenditures.

The following table presents Net Debt as of September 30, 2017, and December 31, 2016:

Net Debt Reconciliation:	**September 30, 2017**	**December 31, 2016**
Current portion of long-term debt	$ 171,490	$ 6,728
Long-term debt	33	135,238
Total debt	171,523	141,966
Less cash, net of overdrafts	(1,516)	(8,750)
Net debt	$ 170,007	$ 133,216

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 September 30, 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 September 30, 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 in 2014, the expansion of our Pryor facility principally in 2015, and the construction of our South Carolina facility in 2016 and 2017, our indebtedness is now substantially greater than our indebtedness prior to these events. At September 30, 2017, we had $171.5 million of indebtedness. In the fourth quarter of 2017, under the terms of our existing loan agreement, we anticipate making principal payments of $2.8 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, June 30, 2017, and September 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 1.05:1 and 1.2:1 for the periods ended September 30, 2017 and December 31, 2017 and each quarter thereafter, respectively. Our lender has waived this covenant ratio for the periods ended June 30, 2017 and September 30, 2017. Additionally, the financial covenants require a minimum EBITDA for the most recent three-month period of $4.0 million, $4.8 million, and $5.0 million at October 31, 2017, November 30, 2017, and December 31, 2017 and as of the last day of each month thereafter, respectively. 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.

Additionally, we have agreed not to make any dividend or other distribution payment with respect to its equity unless we have achieved a Leverage Ratio of less than 4.0:1.0 for two consecutive fiscal quarters and no Default or Event of Default (as defined in the Credit Agreement) exists or would exist following such payment. The amount and timing of dividend payments otherwise remains subject to the judgment and approval of our Board of Directors.

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 September 30, 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: November 9, 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. 6, dated as of November 7, 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.
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 September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the three and nine-month periods ended September 30, 2017 and 2016, (ii) Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (iv) Notes to Consolidated Unaudited Interim Financial Statements.

Exhibit 10.1

Deal CUSIP 68572PAA7
Revolving Loan CUSIP 68572PAB5
Term Loan CUSIP 68572PAC3
Draw Loan CUSIP 68572PAD1

AMENDMENT NO. 6 TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

DATED AS OF NOVEMBER 7, 2017

AMONG

ORCHIDS PAPER PRODUCTS COMPANY,

THE LENDERS,

AND

U.S. BANK NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT

AMENDMENT NO. 6 TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDMENT NO. 6 TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is dated as of November 7, 2017, among Orchids Paper Products Company, a Delaware corporation, the undersigned Lenders and U.S. Bank National Association, a national banking association, as LC Issuer, Swing Line Lender and as Administrative Agent. Capitalized terms used and not otherwise defined in this Amendment (including Exhibit A attached hereto) shall have the meanings assigned thereto in the Credit Agreement.

RECITALS

A. The Borrower, the Lenders and the Administrative Agent are parties to a Second Amended and Restated Credit Agreement dated as of June 25, 2015, as amended by (i) that certain Amendment No. 1 to Second Amended and Restated Credit Agreement dated as of November 6, 2015 among Borrower, the Lenders and the Administrative Agent, (ii) that certain Amendment No. 2 to Second Amended and Restated Credit Agreement dated as of December 29, 2015 among Borrower, the Lenders and the Administrative Agent (iii) that certain Amendment No. 3 to Second Amended and Restated Credit Agreement dated as of January 19, 2017 among Borrower, the Lenders and the Administrative Agent, (iv) that certain Amendment No. 4 to Second Amended and Restated Credit Agreement dated as of March 31, 2017 among Borrower, the Lenders and the Administrative Agent and (v) that certain Amendment No. 5 to Second Amended and Restated Credit Agreement dated as of June 30, 2017 among Borrower, the Lenders and the Administrative Agent (collectively, the "Credit Agreement").

B. The parties enter into this Amendment to (i) provide for a minimum Consolidated EBITDA covenant, (ii) amend the Pricing Schedule, (iii) amend certain reporting requirements of the Borrower, (iv) waive certain rights and remedies arising from the existence and continuation of the Existing Defaults (as defined below), and (v) make certain other amendments and modifications as more specifically set forth herein.

AGREEMENT

The undersigned Lenders constituting the Required Lenders, the Administrative Agent and the Borrower for good, sufficient and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, agree as follows:

1. Amendment to the Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) Section 6.1(b) of the Credit Agreement is deleted and replaced with the following:

(b) Within 45 days after the close of each of its fiscal quarters, for itself and its Subsidiaries, consolidated unaudited balance sheets as at the close of each such period and consolidated profit and loss and reconciliation of surplus statements (including sufficient detail for independent calculation of the financial covenants set forth in Section 6.21) and a statement of cash flows for the period from the beginning of such fiscal year to the end of such quarter, all certified by its chief financial officer.

(b) Section 6.1(e) of the Credit Agreement is hereby deleted and replaced with the following:

(e) Together with the financial statements required under Sections 6.1(b) and (k), a compliance certificate in substantially the form of **Exhibit B** signed by its chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Event of Default exists, or if any Default or Event of Default exists, stating the nature and status thereof.

(c) Section 6.1 of the Credit Agreement is amended by adding the following as subsection 6.1(j) thereof:

(j) within two (2) days after the last day of each calendar week commencing with the calendar week ending November 3, 2017, an updated rolling 13-week cash flow forecast in form and substance satisfactory to the Administrative Agent.

(d) Section 6.1 of the Credit Agreement is amended by adding the following as subsection 6.1(k) thereof:

(k) Within 30 days after the last day of each calendar month, for itself and its Subsidiaries, consolidated unaudited balance sheets as at the close of each such period and consolidated profit and loss and reconciliation of surplus statements (including sufficient detail for independent calculation of the financial covenants set forth in Section 6.21(c)), and a statement of cash flows for the period from the beginning of such fiscal year to the end of such month, all certified by its chief financial officer.

(e) Section 6.21 of the Credit Agreement is amended by adding the following as subsection 6.21(c) thereof:

(c) Minimum Consolidated EBITDA. The Borrower will not permit Consolidated EBITDA determined as of the last day of each month for the then most-recently ended three month period to be less than (i) $4,000,000 as of October 31, 2017, (ii) $4,800,000 as of November 30, 2017, and (iii) $5,000,000 as of December 31, 2017, and as of the last day of each month thereafter.

(f) Section 7.3 of the Credit Agreement is deleted and the following is inserted in place thereof:

7.3 The breach by the Borrower of any of the terms or provisions of Section 6.1(a), 6.1(b), 6.1(c), 6.1(e), 6.1(j), 6.1(k), 6.2, 6.3, 6.4, 6.11, 6.12, 6.13, 6.14, 6.15, 6.16, 6.18, 6.19, 6.20, 6.21, 6.22, 6.23 or 6.24.

(g) The Pricing Schedule attached to the Credit Agreement is deleted and the Pricing Schedule attached to this Amendment is inserted in place thereof.

(h) Schedule I to the Form of Compliance Certificate attached to the Credit Agreement as Exhibit B is deleted and Schedule I attached to this Amendment is inserted in place thereof.

2. No Other Amendments. Except as expressly set forth herein, or necessary to incorporate the modifications and amendments herein, all the terms and conditions of the Credit Agreement, the Collateral Documents and the other Loan Documents shall remain unmodified and in full force and effect.

3. Existing Defaults; Waiver of Remedies. The Borrower acknowledges and agrees that the Borrower failed to comply with the Fixed Charge Coverage Ratio covenant and the Leverage Ratio covenant, in each case, for the period ending on September 30, 2017, which results in an Event of Default under Section 7.3 of the Credit Agreement (the "Existing Defaults"). The Borrower hereby acknowledges the existence and continuation of the Existing Defaults. As a result of the Existing Defaults, the Administrative Agent has the right to exercise any and all rights and remedies available to it under the Credit Agreement, the other Loan Documents and under applicable law. Effective upon satisfaction of the conditions precedent set forth in this Amendment, the Administrative Agent and the Lenders hereby waive enforcement of the rights and remedies available to them under the Credit Agreement and the other Loan Documents as a result of the Existing Defaults from the date that such Existing Defaults occurred to the extent, and only to the extent, that the Existing Defaults occurred or existed under the Credit Agreement and the other Loan Documents on or before the date of this Amendment. Nothing in this Section 3 shall be deemed to (a) constitute a waiver of compliance by the Borrower or any other Person with respect to any other term, provision or condition of the Credit Agreement or any other Loan Document, or any other instrument or agreement referred to therein; or (b) prejudice any right or remedy that the Administrative Agent and the Lenders may now have or may have in the future under or in connection with the Credit Agreement or any other Loan Document, or any other instrument or agreement referred to therein.

4. Representations and Warranties. The Borrower hereby represents and warrants to Administrative Agent and Lenders that:

(a) The execution, delivery and performance by the Borrower of this Amendment and all other Loan Documents required to be delivered in connection with this Amendment have each been duly authorized by all necessary action, and does not contravene (i) any provision of the organizational documents of the Borrower, (ii) any law, rule, or regulation applicable to the Borrower or its properties, or (iii) any agreement or instrument to which the Borrower is a party or by which the Borrower is bound or to which it is subject.

(b) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or regulatory body is required for the due execution, delivery and performance by the Borrower of this Amendment and each other Loan Document required to be delivered in connection with this Amendment, except as has been duly obtained or made and are in full force and effect.

(c) This Amendment and all other Loan Documents required to be delivered in connection with this Amendment have been duly executed and delivered by the Borrower and each constitutes the legal, valid and binding obligation of the Borrower enforceable in accordance with its terms.

(d) All representations and warranties made by the Borrower in Article V of the Credit Agreement are true and correct as of the date of this Amendment.

(e) The Borrower is in compliance with all covenants and agreements contained in Article VI of the Credit Agreement, as amended by this Amendment, other than with respect to the Existing Defaults.

(f) There have been no amendments or modifications to the Borrower's organizational documents since such documents were certified and delivered to Administrative Agent on the Effective Date.

(g) The resolutions of the Borrower certified and delivered to Administrative Agent on the Effective Date have not been amended, modified or rescinded and remain in full force and effect as of the date hereof.

(h) To the best of the Borrower's knowledge, no Default or Event of Default (other than the Existing Defaults) currently exists under the Loan Documents, as amended by this Amendment.

(i) Borrower acknowledges that Administrative Agent has recommended that Borrower consult with counsel prior to execution of this Amendment and represents that it has either done so or has knowingly waived the right to do so despite the express recommendation of Administrative Agent.

5 . Conditions Precedent. It shall be a condition precedent to the effectiveness of this Amendment that (a) all accrued but unpaid interest on the Loans as of the date hereof shall have been paid by the Loan Parties, (b) no Default or Event of Default (other than the Existing Defaults) shall exist under the Credit Agreement or any other Loan Document, as amended by this Amendment, (c) each of the Borrower and Guarantors shall have delivered evidence of its authority to enter into this Amendment as well as the capacity of the individuals executing this Amendment on its behalf, (d) each Guarantor has executed and delivered the Consent of Guarantors attached hereto to Administrative Agent, (e) this Amendment has been executed by the Borrower and Lenders constituting the Required Lenders, (f) Borrower has provided to Administrative Agent a 13-week cash flow forecast in form and substance satisfactory to the Administrative Agent and (g) the Administrative Agent shall have received such other items as it may reasonably request.

6 . Ratification and Affirmation; Conflicts . The Borrower hereby acknowledges the terms of this Amendment and ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect. To the extent that any provision of this Amendment conflicts with any term or condition set forth in the Credit Agreement or the other Loan Documents, the provisions of this Amendment shall supersede and control.

7 . Waiver of Claims and Defenses. The Borrower and Guarantors, for and on behalf of themselves and their legal representatives, successors and assigns, do waive, release, relinquish and forever discharge the Administrative Agent and each Lender, its parents, subsidiaries, and affiliates, its and their respective past, present and future directors, officers, managers, agents, employees, insurers, attorneys, representatives and all of their respective heirs, successors and assigns (collectively, the "Released Parties"), of and from any and all manner of action or causes of action, suits, claims, demands, judgments, damages, levies and executions of whatsoever kind, nature or description arising on or before the date hereof, including, without limitation, any claims, losses, costs or damages, including compensatory and punitive damages, in each case whether known or unknown, asserted or unasserted, liquidated or unliquidated, fixed or contingent, direct or indirect, which the Borrower or the Guarantors, or their legal representatives, successors or assigns, ever had or now have or may claim to have against any of the Released Parties, with respect to any matter whatsoever, including, without limitation, the Loan Documents, the administration of the Loan Documents, the negotiations relating to this Amendment and the other Loan Documents executed in connection with this Amendment and any other instruments and agreements executed by the Borrower or any Guarantor in connection with the Loan Documents or this Amendment, arising on or before the date hereof (collectively, " Claims"). The Borrower and each Guarantor acknowledges that they are aware that they may discover facts different from or in addition to those they now know or believe to be true with respect to the Claims, and agree that the release contained in this Amendment is and will remain in effect in all respects as a complete and general release as to all matters released in this Amendment, notwithstanding any such different or additional facts. The Borrower and each Guarantor agrees not to sue any Released Party or in any way assist any other person or entity in suing a Released Party with respect to any claim released in this Section. Borrower and each Guarantor acknowledges and agrees that Administrative Agent and the Lenders have fully and timely performed all of their respective obligations and duties in compliance with the Loan Documents and applicable law, and has acted reasonably, in good faith, and appropriately under the circumstances.

8 . No Impairment. Nothing in this Amendment shall be deemed to or shall in any manner prejudice or impair the Loan Documents, the Collateral Documents or any security granted or held by the Administrative Agent for the Obligations.

9 . Binding Agreement. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

10 . **APPLICABLE LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF OKLAHOMA, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS**.

11. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original but all of which taken together shall constitute one and the same instrument.

12 . Waiver of Jury Trial. Any controversy or claim between or among the parties hereto arising out of or relating to this Amendment shall be controlled by the provisions with respect to waiver of trial by jury contained in the Loan Documents previously delivered by such parties.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Borrower, the Lenders, the LC Issuer and the Administrative Agent have executed this Amendment as of the date first above written.

BORROWER:

ORCHIDS PAPER PRODUCTS COMPANY,
a Delaware corporation

By: /s/ Rod Gloss,
Rod Gloss, Chief Financial Officer

ACKNOWLEDGED AND AGREED:

ORCHIDS PAPER PRODUCTS COMPANY
OF SOUTH CAROLINA, a Delaware corporation

By: /s/ Rod Gloss
Rod Gloss, Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,
as a Lender, as LC Issuer, as Swing Line Lender and as Administrative Agent

By: /s/ Jason Henrie
Jason Henrie, Vice President

JPMORGAN CHASE BANK, N.A., as a Lender

By: ______________________
Name: ______________________
Title: ______________________

Signature Page - Amendment No. 6

SUNTRUST BANK, as a Lender

By: /s/Justin Lien
Name: Justin Lien
Title: Director

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FIRST TENNESSEE BANK, as a Lender

By: /s/ Bob Nieman
Name: Bob Nieman
Title: Senior Vice President

Signature Page - Amendment No. 6

PRICING SCHEDULE

Applicable Margin	Level I Status	Level II Status	Level III Status	Level IV Status	Level V Status	Level VI Status	Level VII Status	Level VIII Status	Level IX Status
Eurocurrency Rate	*1.25%*	*1.50%*	*1.75%*	*2.25%*	*2.50%*	*3.00%*	*3.50%*	*4.00%*	*6.00%*
Base Rate	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.25%*	*0.75%*	*1.25%*	*1.75%*	*3.75%*

Applicable Fee Rate	Level I Status	Level II Status	Level III Status	Level IV Status	Level V Status	Level VI Status	Level VII Status	Level VIII Status	Level IX Status
Commitment Fee	*0.15%*	*0.20%*	*0.25%*	*0.30%*	*0.35%*	*.40%*	*.45%*	*.50%*	*.55%*

For the purposes of this Schedule, the following terms have the following meanings, subject to the final paragraph of this Schedule:

"Financials" means the annual or quarterly financial statements of the Borrower delivered pursuant to Section 6.1(a) or (b).

"Level I Status" exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is less than 1.00 to 1.00.

"Level II Status" exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, (i) the Borrower has not qualified for Level I Status and (ii) the Leverage Ratio is less than 2.00 to 1.00.

"Level III Status" exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, (i) the Borrower has not qualified for Level I Status or Level II Status and (ii) the Leverage Ratio is less than 3.00 to 1.00.

"Level IV Status" exists at any date if the Borrower has not qualified for Level I Status, Level II Status or Level III Status and (ii) the Leverage Ratio is less than 3.50 to 1.00.

"Level V Status" exists at any date if the Borrower has not qualified for Level I Status, Level II Status, Level III Status or Level IV Status and (ii) the Leverage Ratio is less than 4.00 to 1.00.

“Level VI Status” exists at any date if the Borrower has not qualified for Level I Status, Level II Status, Level III Status, Level IV Status or Level V Status and (ii) the Leverage Ratio is less than 4.50 to 1.00.

“Level VII Status” exists at any date if the Borrower has not qualified for Level I Status, Level II Status, Level III Status, Level IV Status, Level V Status or Level VI Status and (ii) the Leverage Ratio is less than 5.00 to 1.00.

"Level VIII Status" exists at any date if the Borrower has not qualified for Level I Status, Level II Status, Level III Status, Level IV Status, Level V Status, Level VI Status or Level VII Status and (ii) the Leverage Ratio is less than 6.00 to 1.00.

“Level IX Status” exists at any date if the Borrower has not qualified for Level I Status, Level II Status, Level III, Level IV Status, Level V Status, Level VI Status, Level VII Status or Level VIII Status.

“Status” means either Level I Status, Level II Status, Level III Status, Level IV Status, Level V Status, Level VI Status, Level VII Status, Level VIII Status of Level IX Status.

The Applicable Margin and Applicable Fee Rate shall be determined in accordance with the foregoing table based on the Borrower’s Status as reflected in the then most recent Financials. Adjustments, if any, to the Applicable Margin or Applicable Fee Rate shall be effective from and after the first day of the first fiscal month immediately following the date on which the delivery of such Financials is required until the first day of the first fiscal month immediately following the next such date on which delivery of such Financials of the Borrower and its Subsidiaries is so required. If the Borrower fails to deliver the Financials to the Administrative Agent at the time required pursuant to Section 6.1, then the Applicable Margin and Applicable Fee Rate shall be the highest Applicable Margin and Applicable Fee Rate set forth in the foregoing table until five (5) days after such Financials are so delivered.

Notwithstanding the foregoing, Level V Status shall be deemed to be applicable until the Administrative Agent’s receipt of the applicable Financials for the Borrower’s fiscal quarter ending December 31, 2016, and adjustments to the Status then in effect shall thereafter be effected in accordance with the preceding paragraph.

SCHEDULE I TO COMPLIANCE CERTIFICATE

Compliance as of [_________], 20[__] with
Provisions of Section 6.21 of
the Agreement

(a) Fixed Charge Coverage Ratio (determined as of the end of each fiscal quarter for the then most-recently ended four (4) fiscal quarters)

i. Consolidated EBITDA	$_____________________
ii. Consolidated Rentals	$_____________________
iii. Net cash proceeds received from the issuance of its equity interests during the period commencing on April 1, 2017 and ending on September 30, 2017	$_____________________
iv. Such other adjustments as approved by Required Lenders	$_____________________
v. Maintenance Capital Expenditures	$_____________________
vi. Restricted Payments	$_____________________
vii. Cash taxes	$_____________________
viii. Cash Flow Reserve	$_____________________
ix. Line i, plus ii, iii and iv, minus lines v, vi, vii, and viii	$_____________________
x. Consolidated Interest Expense	$_____________________
xi. Consolidated Rentals	$_____________________
xii. Consolidated Principal Payments over the four (4) fiscal quarters then ending	$_____________________
xiii. Line x, plus xi and xii	$_____________________
xiv. Line ix divided by Line xiii	
Required Ratio	1.__ to 1.00
Compliance	Yes ☐ No ☐

(b) Leverage Ratio (determined as of the end of each fiscal quarter for the then most-recently ended four (4) fiscal quarters)

i. Consolidated Funded Indebtedness	$_____________________
ii. Consolidated EBITDA	$_____________________
iii. Line i. divided by line ii.	
Required Ratio	____ to 1.00
Compliance	Yes ☐ No ☐

(c) Minimum EBITDA (determined as of the last day of each month for the then most-recently ended three month period)

Consolidated EBITDA	$_____________________
Required Consolidated EBITDA	$_____________________
Compliance	Yes ☐ No ☐

CONSENT OF GUARANTORS

This Consent of Guarantors is being delivered pursuant to the terms of that certain Amendment No. 6 to Second Amended and Restated Credit Agreement dated of even date herewith (the "Amendment") among Orchids Paper Products Company, a Delaware corporation ("Borrower"), the Lenders named therein and U.S. Bank National Association, as Administrative Agent (the " Administrative Agent"), LC Issuer and Swingline Lender.

The Amendment amends and modifies the terms of that certain Second Amended and Restated Credit Agreement dated as of June 25, 2015 between Borrower and U.S. Bank National Association, as Administrative Agent, LC Issuer and Swingline Lender, as amended by that certain (a) Amendment No. 1 to Second Amended and Restated Credit Agreement dated as of November 6, 2015, (b) Amendment No. 2 to Second Amended and Restated Credit Agreement dated as of December 29, 2015, (c) Amendment No. 3 to Second Amended and Restated Credit Agreement dated as of January 19, 2017, (d) Amendment No. 4 to Second Amended and Restated Credit Agreement dated as of March 31, 2017 and (e) Amendment No. 5 to Second Amended and Restated Credit Agreement dated as of June 30, 2017 (collectively, the "Credit Agreement").

Each of the undersigned (individually, a "Guarantor" and collectively, the "Guarantors") is a guarantor of, and pledgor of collateral for, the indebtedness and obligations of Borrower to the Holders of the Secured Obligations under the Credit Agreement, pursuant to the terms of certain Loan Documents, which include, without limitation, the guaranty agreements and other collateral documents described on Schedule 1 attached hereto (collectively, the "Guarantor Documents").

Borrower has requested that U.S. Bank National Association, as Administrative Agent, LC Issuer and Swingline Lender and the Lenders agree to amend and modify the terms of the Credit Agreement in the manner set forth in the Amendment, and U.S. Bank National Association, as Administrative Agent, LC Issuer and Swingline Lender and the Lenders are willing to agree to the terms of the Amendment, but only if the Guarantors execute and deliver this Consent of Guarantors to the Administrative Agent for the benefit of the Lenders.

To induce the Administrative Agent, LC Issuer, Swingline Lender and the Lenders to amend and modify the Credit Agreement pursuant to the terms of the Amendment and the other Loan Documents (as defined in the Credit Agreement) to be executed and/or delivered to Administrative Agent in connection therewith, the undersigned Guarantors jointly and severally:

(a) represent and warrant to the Administrative Agent and Lenders that they have been provided copies of the Amendment and the other Loan Documents and are familiar with their terms;

(b) consent to Borrower's execution and delivery of the Amendment and the other Loan Documents to the Administrative Agent and Lenders;

(c) agree that the execution, delivery and performance of the Amendment and the other Loan Documents shall not discharge, limit or otherwise impair the obligations of any Guarantor under the Guarantor Documents;

(d) agree that the Guarantor Documents remain in full force and effect and are enforceable against the Guarantors party thereto in accordance with their respective terms;

(e) agree that the Guarantor Documents shall act to guarantee or secure, as applicable, the payment and performance of all Secured Obligations (as defined in the Credit Agreement) as modified in connection with the Amendment; and

(f) agree that no Guarantor has any defenses, set-offs, counterclaims or other claims to or against the enforcement of the Administrative Agent's and/or Lenders' rights and remedies under the Guarantor Documents and to the extent any such Guarantor may have such defenses, set-offs, counterclaims or other claims, each Guarantor hereby waives and releases any and all such defenses, set-offs, counterclaims or other claims. Each Guarantor hereby joins in the waiver of claims and defenses set forth in Section 7 of the foregoing Amendment.

Each Guarantor ratifies and reaffirms such Guarantor's obligations under the Guarantor Documents to which such Guarantor is a party. Capitalized terms used herein and not otherwise defined herein have the meanings assigned to them in the Credit Agreement. This Consent of Guarantors may be validly executed and delivered by fax or other electronic means and by use of multiple counterpart signature pages.

IN WITNESS WHEREOF, each of the undersigned have executed and delivered this Consent of Guarantors as of November 7, 2017.

GUARANTORS:

ORCHIDS PAPER PRODUCTS COMPANY OF SOUTH CAROLINA

By: /s/ Rod Gloss
Rod Gloss, Chief Financial Officer

ORCHIDS MEXICO (DE) HOLDINGS, LLC

By: /s/ Rod Gloss
Rod Gloss, Manager

ORCHIDS MEXICO (DE) MEMBER, LLC

By: /s/ Rod Gloss
Rod Gloss, Manager

OPP ACQUISITION MEXICO, S. DE R.L. DE C.V.

By: /s/ Rod Gloss
Rod Gloss
Manager and Legal Representative

SCHEDULE 1

List of Guaranty and Pledge Agreements

1. Guaranty dated as of June 3, 2014, executed by Orchids Mexico (DE) Holdings, LLC, a Delaware limited liability company ("Holdings"), and Orchids Mexico (DE) Member, LLC, a Delaware limited liability company ("Member")

2. Guarantee Agreement dated as of June 3, 2014, between OPP Acquisition Mexico, S. de. R.L. de. C.V. (" Mexico Subsidiary") and Administrative Agent

3. Security Agreement dated as of June 3, 2014, executed by Borrower, Holdings and Member

4. Assignment of Agreements dated as of July 31, 2014, executed by Borrower and Mexico Subsidiary

5. Contrato de Prenda (Asset Pledge Agreement) dated as of July 31, 2014, executed by Mexico Subsidiary

6. Contrato de Prenda Sobre Partes Sociales (Share Peldge Agreement) dated as of July 31, 2014, executed by Holdings

7. Supplement to Guaranty dated as of April 28, 2015, executed by Orchids Paper Products Company of South Carolina, a Delaware limited liability company ("Orchids South Carolina")

8. Security Agreement Supplement dated as of April 28, 2015, executed by Orchids South Carolina

9. Mortgage, Security Agreement, Financing Statement and Assignment of Rents and Leases dated as of May 12, 2015, executed by Orchids South Carolina

Exhibit 31.1

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: November 9, 2017

/s/ Jeffrey S. Schoen
Jeffrey S. Schoen
Chief Executive Officer and President

Exhibit 31.2

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: November 9, 2017

/s/ Rodney D. Gloss
Rodney D. Gloss
Chief Financial Officer

Exhibit 32.1

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 September 30, 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
November 9, 2017

Exhibit 32.2

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 September 30, 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
November 9, 2017