

Orchids Paper Products CO /DE
Form 10-K/A
March 30, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from to

Commission File Number: 001-32563

ORCHIDS PAPER PRODUCTS COMPANY

A Delaware corporation

(State or other jurisdiction of incorporation or organization)

23-2956944

(I.R.S. Employer Identification Number)

4826 Hunt Street, Pryor, Oklahoma 74361

(Address of principal executive offices)

Registrant's telephone number, including area code: **(918) 825-0616**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 requirements 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's common equity held by non-affiliates was approximately \$325.2 million as of June 30, 2016.

As of March 1, 2017, there were outstanding 10,302,891 shares of common stock, none of which are held in treasury.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Registrant's 2017 Annual Meeting of Stockholders (the "Annual Meeting of Stockholders") to be filed within 120 days after December 31, 2016, are incorporated by reference into Part III of this Form 10-K.

AMENDMENT NO. 1 TO THE ANNUAL REPORT ON FORM 10-K/A

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Explanatory Note

Orchids Paper Products Company (the “Company,” “we,” “us” or “our”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to amend our Annual Report on Form 10-K for the year ended December 31, 2016, originally filed with the Securities and Exchange Commission on March 15, 2017 (the “Original Filing”). This Amendment is being filed solely to correct an administrative error in the date of the Report of Independent Registered Public Accounting Firm of HoganTaylor LLP (the “Report”). The Report in the Original Filing incorrectly referenced “March 15, 2016” instead of “March 15, 2017” as the date on which the Company’s independent auditor delivered the Report to the Company. The Report of Independent Registered Public Accounting Firm with the correct date is filed herewith.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, we have included the entire text of Part II, Item 8 of the Original Filing in this Amendment. There have been no changes to the text of the Original Filing other than the change stated in the immediately preceding paragraph.

This Amendment does not reflect any events occurring after the filing of the Original Filing nor does it amend or otherwise update any other information in the Original Filing.

PART II

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Orchids Paper Products Company

We have audited the accompanying consolidated balance sheets of Orchids Paper Products Company and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016, and the financial statement schedule of Orchids Paper Products Company listed in Item 15(a). We also have audited Orchids Paper Products Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Orchids Paper Products Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have

a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orchids Paper Products Company and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America, and in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also in our opinion, Orchids Paper Products Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ HOGANTAYLOR LLP

Tulsa, Oklahoma

March 15, 2017

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

	As of December 31,	
	2016	2015
ASSETS		
Current assets:		
Cash	\$8,750	\$4,361
Accounts receivable, net of allowance of \$30 in 2016 and \$155 in 2015	8,954	10,509
Receivables from related party	491	1,325
Inventories, net	18,414	13,501
Income taxes receivable	8,735	5,628
Prepaid expenses	925	1,136
Other current assets	868	1,853
Total current assets	47,137	38,313
Property, plant and equipment	320,442	232,925
Accumulated depreciation	(71,258)	(59,547)
Net property, plant and equipment	249,184	173,378
Restricted cash	1,276	12,005
VAT receivable	212	1,751
Intangible assets, net of accumulated amortization of \$3,479 in 2016 and \$2,260 in 2015	14,511	15,730
Goodwill	7,560	7,560
Total assets	\$319,880	\$248,737
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$7,739	\$7,211
Accounts payable to related party	3,130	3,887
Accrued liabilities	2,545	3,880
Current portion of long-term debt	6,728	3,882
Total current liabilities	20,142	18,860
Long-term debt, less current portion	133,989	70,357
Other long-term liabilities	5,170	5,098
Deferred income taxes	27,334	20,639
Commitment and contingencies (Note 4)		
Stockholders' equity:		
Common stock, \$.001 par value, 25,000,000 shares authorized, 10,296,891 and 10,268,891 shares issued and outstanding in 2016 and 2015, respectively	10	10
Additional paid-in capital	98,885	97,834

Retained earnings	34,350	35,939
Total stockholders' equity	133,245	133,783
Total liabilities and stockholders' equity	\$319,880	\$248,737

See notes to consolidated financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME****Years ended December 31, 2016, 2015 and 2014****(In thousands, except share and per share data)**

	2016	2015	2014
Net sales	\$164,494	\$168,446	\$142,724
Cost of sales	134,345	137,949	115,985
Gross profit	30,149	30,497	26,739
Selling, general and administrative expenses	10,244	9,540	11,675
Intangibles amortization	1,219	1,507	753
Operating income	18,686	19,450	14,311
Interest expense	1,678	521	271
Other (income) expense, net	(214)	(683)	181
Income before income taxes	17,222	19,612	13,859
Provision for (benefit from) income taxes:			
Current	(3,159)	1,820	6,774
Deferred	7,570	4,235	(2,380)
	4,411	6,055	4,394
Net income	\$12,811	\$13,557	\$9,465
Net income per common share:			
Basic	\$1.25	\$1.39	\$1.12
Diluted	\$1.24	\$1.38	\$1.11
Weighted average common shares used in calculating net income per common share:			
Basic	10,286,373	9,778,167	8,462,875
Diluted	10,349,274	9,844,221	8,538,752
Dividends per share	\$1.40	\$1.40	\$1.40

See notes to consolidated financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****Years ended December 31, 2014, 2015 and 2016****(In thousands, except share data)**

	Common Stock		Additional	Retained	Total
	Shares	Value	Paid-in Capital	Earnings	
Balance at December 31, 2013	8,066,809	\$ 8	\$ 46,298	\$38,543	\$84,849
Acquisition of Fabrica assets and U.S. business	686,083	1	15,999	-	16,000
Stock based compensation	(667)	-	1,879	-	1,879
Stock options exercised	5,750	-	79	-	79
Dividends paid to stockholders	-	-	-	(11,779)	(11,779)
Net income	-	-	-	9,465	9,465
Excess tax benefit of stock options exercised	-	-	20	-	20
Balance at December 31, 2014	8,757,975	\$ 9	\$ 64,275	\$36,229	\$100,513
Stock based compensation	(334)	-	1,048	-	1,048
Stock options exercised	11,250	-	210	-	210
Net proceeds from follow-on stock offering	1,500,000	1	32,118	-	32,119
Land donation	-	-	189	-	189
Dividends paid to stockholders	-	-	-	(13,847)	(13,847)
Net income	-	-	-	13,557	13,557
Excess tax benefit of stock options exercised	-	-	(6)	-	(6)
Balance at December 31, 2015	10,268,891	\$ 10	\$ 97,834	\$35,939	\$133,783
Stock based compensation	-	-	566	-	566
Stock options exercised	28,000	-	314	-	314
Dividends paid to stockholders	-	-	-	(14,400)	(14,400)
Net income	-	-	-	12,811	12,811
Excess tax benefit of stock options exercised	-	-	171	-	171
Balance at December 31, 2016	10,296,891	\$ 10	\$ 98,885	\$34,350	\$133,245

See notes to consolidated financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS****Years ended December 31, 2016, 2015 and 2014****(In thousands)**

	2016	2015	2014
Cash Flows From Operating Activities			
Net income	\$ 12,811	\$ 13,557	\$ 9,465
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,229	11,420	9,749
Provision for doubtful accounts	(125)	-	20
Deferred income taxes	7,570	4,235	(2,491)
Stock compensation expense	566	1,048	1,879
Loss on disposal of property, plant and equipment	17	-	8
Changes in cash due to changes in operating assets and liabilities:			
Accounts receivable	2,514	(1,640)	(2,556)
Inventories	(4,913)	(3,852)	1,272
Income taxes receivable	(3,107)	(4,994)	(634)
Prepaid expenses	211	149	(422)
Other assets	2,237	(972)	(3,560)
Accounts payable	(973)	(293)	7,706
Accrued liabilities	(2,210)	133	(284)
Net cash provided by operating activities	27,827	18,791	20,152
Cash Flows From Investing Activities			
Acquisition of Fabrica assets and U.S. business	-	-	(16,700)
Purchases of property, plant and equipment	(88,862)	(63,184)	(25,769)
Proceeds from insurance settlement related to capital investment	420	-	-
Proceeds from sale of property, plant and equipment	34	-	-
Decrease (increase) in restricted cash	10,729	(12,005)	-
Purchases of short-term investments	-	-	(2)
Proceeds from the sale of short-term investments	-	-	5,037
Net cash used in investing activities	(77,679)	(75,189)	(37,434)
Cash Flows From Financing Activities			
Borrowings under long-term debt	-	31,109	30,000
Proceeds from economic incentive	1,900	-	-
Net proceeds under New Market Tax Credit financing	-	5,098	-
Principal payments on long-term debt	(3,882)	(2,700)	(16,429)
Net borrowings on revolving credit line	70,267	10,810	7,712
Bank overdrafts	-	(1,706)	1,706

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Proceeds from follow-on stock offering	-	32,119	-
Dividends paid to stockholders	(14,400)	(13,847)	(11,781)
Proceeds from the exercise of stock options	314	210	79
Excess tax benefit of stock options exercised	171	(6)	20
Deferred debt issuance costs	(129)	(1,349)	(209)
Net cash provided by financing activities	54,241	59,738	11,098
Net increase (decrease) in cash	4,389	3,340	(6,184)
Cash, beginning	4,361	1,021	7,205
Cash, ending	\$8,750	\$4,361	\$1,021

See notes to consolidated financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31, 2016, 2015 and 2014

(In thousands)

Supplemental Disclosure:

Interest paid	\$2,907	\$720	\$499
Income taxes paid, net	\$13	\$6,722	\$7,301
Tax benefits realized from stock options exercised	\$211	\$23	\$16
Capital expenditures invoiced but not yet paid	\$744	\$-	\$-
Stock issued for Fabrica assets and U.S. business	\$-	\$-	\$16,000
Value of donated land	\$-	\$189	\$-

See notes to consolidated financial statements.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016, 2015 and 2014

Note 1—Nature of Business and Summary of Significant Accounting Policies

Business

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

The Company's stock trades on the NYSE MKT under the ticker symbol "TIS."

Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Orchids Paper Products Company, its wholly owned subsidiaries, as described above, and variable interest entities for which Orchids is the primary beneficiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash

Cash includes cash on hand and cash in banks that management expects to utilize for operational activities.

Accounts receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. A trade receivable is considered to be past due if it is outstanding for more than five days past terms. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when received. The Company does not typically charge interest on trade receivables.

Inventories

Inventories consist of converted finished goods, bulk paper rolls and raw materials stated at the lower of cost or net realizable value (market). The Company's cost is based on standard cost, specific identification, or FIFO (first-in, first-out) method. 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 to the extent such input costs do not result in values in excess of net realizable value.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 1—Nature of Business and Summary of Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets. The Company expenses normal maintenance and repair costs as incurred. Spare parts that are maintained to keep the Company's machinery and equipment in working order are capitalized and expensed when used rather than depreciated. Gain and loss on disposal of property, plant and equipment is recognized in the period incurred. The Company capitalizes interest for major capital projects. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful lives of those assets.

Goodwill, intangible assets and long-lived assets

The Company records the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed as goodwill. Goodwill is tested for impairment annually as well as when an event, or change in circumstances, indicates that the carrying value may not be recoverable.

Under accounting principles generally accepted in the United States ("U.S. GAAP"), the Company may first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of its reporting unit is greater than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, there is no need to perform any further testing. However, if the Company concludes otherwise, it is required to perform the first step of a two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the fair value of the reporting unit is less than its carrying value, it is required to perform the second step of the two-step impairment

test, in which an impairment loss is calculated and recorded to the extent that the implied fair value of the goodwill of the reporting unit is less than its carrying value. Alternatively, the Company may bypass the qualitative assessment in any period and proceed directly to performing the first step of the two-step goodwill impairment test.

The Company performed its annual goodwill impairment test on October 1, 2016 by performing the first step (e.g. “step zero”), 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”. The Company has 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 the Company’s 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.

Intangible assets consist of the Supply Agreement and Equipment Lease Agreements with Fabrica (see Note 2), licenses, trademarks, customer relationships and a non-compete agreement. The Company amortizes these assets on a straight-line basis over the expected lives of the assets, which range from 2 to 20 years.

The Company reviews its long-lived assets, primarily property, plant and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment evaluation is based on estimates of remaining useful lives and the current and expected future profitability and cash flows. The determination of future profitability and cash flows require significant estimates to be made by the Company’s management. The Company had no impairment of long-lived assets during the years ended December 31, 2016, 2015 or 2014.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 1—Nature of Business and Summary of Significant Accounting Policies (Continued)

Income taxes

Income taxes are computed in accordance with the tax rules and regulations of the taxing authorities where the income is earned. Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of the Company's assets and liabilities. Future tax benefits are recognized to the extent that realization of those benefits is considered to be more likely than not. A valuation allowance is provided for deferred tax assets for which realization is not likely. The Company uses the flow through method to account for Oklahoma and South Carolina investment tax credits earned on eligible capital expenditures in the respective states. Under this method, the investment tax credits are recognized as a reduction to income tax expense when earned.

Deferred debt issuance costs

Costs incurred in obtaining debt funding are deferred and amortized on an effective interest method over the terms of the loans. Amortization expense for 2016, 2015 and 2014 was \$294,000, \$198,000, and \$60,000, respectively, and has been classified as interest expense in the statement of income.

Stock compensation expense

Grant-date cost of stock options and restricted stock are recognized on a straight-line basis over the requisite service periods of the respective options and shares, based on the fair value of the award on the grant date. The fair value of

stock options that have time-based vesting requirements is estimated using the Black-Scholes option-pricing model. The fair value of stock options that have market-based vesting requirements is estimated using a Monte-Carlo option-pricing model. The fair value of restricted stock awards is calculated as the arithmetic mean of the high and low market price of the Company's stock on the grant date.

Excess tax benefits related to share-based compensation that are available to absorb future tax deficiencies related to share-based compensation are recorded in additional paid-in capital ("APIC pool") when realized. If the amount of tax deficiencies is greater than the available APIC pool, the excess is recorded as current income tax expense in the statement of income.

Revenue recognition

Revenues for products loaded on customer trailers are recognized when the customer has accepted custody and left the Company's dock. Revenues for products shipped to customers are recognized when title passes upon shipment. Customer discounts and pricing allowances are included in net sales.

Shipping and handling costs

Shipping and handling costs incurred to ship raw materials to the Company's facilities are included in inventory and cost of sales in the statement of income. Shipping and handling costs incurred to ship finished goods to customer locations and warehouse locations are included in cost of sales in the statement of income.

Business interruption insurance

In 2016, the Company received \$1.1 million of proceeds under a business interruption insurance policy for an incident that occurred in its Oklahoma converting operation in 2015. This amount is recorded as a reduction of cost of sales in the statement of income.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 1—Nature of Business and Summary of Significant Accounting Policies (Continued)

Advertising costs

Advertising costs, which include costs related to artwork and packaging development, totaled approximately \$438,000, \$319,000, and \$292,000, respectively, for the years ended December 31, 2016, 2015 and 2014. These costs are expensed when incurred and included in selling, general and administrative expenses.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates.

Reclassifications

Certain immaterial prior period amounts in the accompanying financial statements have been reclassified to conform to the current period presentation. These reclassifications did not affect previously reported amounts of net income.

New and recently adopted accounting pronouncements

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (“ASU 2015-17”). ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for public companies for annual and interim periods beginning after December 15, 2016. During 2016, we elected to early adopt ASU 2015-17 on a retrospective basis. As such, we reclassified \$1.3 million of current deferred tax assets to noncurrent (netted within noncurrent liabilities) on the consolidated balance sheets as of December 31, 2015. The adoption of ASU 2015-17 did not affect our consolidated statements of income.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40); Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* (“ASU 2015-05”). ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance does not change the accounting for a customer’s service contracts. ASU 2015-05 became effective for the Company on January 1, 2016. Adoption of ASU 2015-05 did not have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued Accounting Standards Update 2015-15, “Interest – Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” (“ASU 2015-15”). ASU 2015-15 states that since ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements, the SEC staff will not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 became effective for the Company on January 1, 2016. As such, we reclassified \$1.3 million of unamortized debt issuance costs, including costs associated with our revolving lines of credit, as of December 31, 2015, to offset long-term debt in the consolidated balance sheets (see Note 7). Adoption of ASU 2015-03 and ASU 2015-15 did not affect our consolidated statements of income.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 1—Nature of Business and Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 1—Nature of Business and Summary of Significant Accounting Policies (Continued)

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 income statement 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 is effective for the Company on January 1, 2017. Adopting ASU 2016-09 will not 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 income statement 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 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 is effective for the Company on January 1, 2017. Adopting ASU 2015-11 will not have a material impact on the Company's financial position, results of operations and cash flows.

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

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 2—Fabrica Transaction

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 an equipment lease agreement (“Equipment Lease Agreement”) (collectively, the “Fabrica Transaction”).

Asset Purchase Agreement and Assignment and Assumption of Supply Agreement

Pursuant to the terms of the APA, Orchids Mexico acquired a paper machine, two converting lines, Fabrica’s U.S. customer list, exclusive rights to all of Fabrica’s trademarks in the United States, and Fabrica’s covenant not to compete in the United States. The purchase price consisted of 411,650 shares of Orchids’ common stock, which were valued at \$12.0 million based on the closing price of the Company’s shares on the closing date and had a fair market value of \$9.6 million on the closing date due to restrictions on the sale of the stock. In connection with closing the APA, Orchids Paper Products Company also entered into an Assignment and Assumption of Supply Agreement with Elgin Finance & Investment Corp. (“Elgin”) for \$16.7 million in cash and 274,433 shares of Orchids’ common stock, which were valued at \$8.0 million based on the closing price of the Company’s shares on the closing date and had a fair market value of \$6.4 million on the closing date due to restrictions on the sale of the stock, in exchange for the assignment to Orchids of Elgin’s supply agreement with Fabrica which provided Elgin exclusive supply rights with respect to Fabrica’s U.S. business.

Under the Supply Agreement, the Company has the right to purchase from Fabrica up to 19,800 tons of parent rolls and equivalent converting capacity for certain specified product during each twelve-month period following the effective date of the Supply Agreement. The Supply Agreement also allowed the Company to purchase up to an additional 7,700 tons annually in each of the first two years of the agreement. Pursuant to the terms of the Supply Agreement, Fabrica and its affiliates will be subject to a non-compete provision with respect to business in the U. S.

The Supply Agreement has an initial term of twenty years. In the event of a termination of the Supply Agreement due to (i) a material breach as a result of intentional, willful or grossly negligent conduct by Fabrica, (ii) a breach of Fabrica's covenant not to compete, or (iii) a voluntary filing of bankruptcy by Fabrica, Fabrica must pay the Company \$100 million in liquidated damages. In the event of a change of control of Fabrica, the Company will have a two-year right to terminate the Supply Agreement, and in such event, Fabrica would be required to pay the Company liquidated damages of \$36.7 million.

Equipment Lease Agreement

Pursuant to the terms of the Equipment Lease Agreement, Orchids Mexico will lease the paper making and converting assets acquired under the APA back to Fabrica. The rental fee will be based upon the number of metric tons shipped by Fabrica to the Company, subject to annual adjustment based on the calculation of the purchase price for product under the Supply Agreement. The Equipment Lease Agreement has a term of twenty years, but will terminate automatically upon termination of the Supply Agreement.

Upon the earlier of (i) the termination of the Equipment Lease Agreement or (ii) the purchase by Orchids of a separate papermaking or converting asset and the entry into of an equipment lease agreement between Orchids and Fabrica with respect to such purchased asset, Orchids Mexico shall have the right to sell to Fabrica the paper assets leased under the Equipment Lease Agreement on an as-is-where-is basis, for \$12.0 million.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 2—Fabrica Transaction (continued)***Purchase Price Allocation*

The acquisition of Fabrica's U.S. business in the Fabrica Transaction is being accounted for under the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification 805, "Business Combinations". The \$32.7 million purchase price of \$16.7 million in cash (financed by a term loan) and \$16.0 million in common stock was allocated as follows (in thousands):

Total purchase price	\$32,700
Less: net assets acquired	
Machinery & equipment	7,150
Intangible asset - supply and equipment lease agreements	12,800
Intangible asset - licenses/trademarks	1,350
Intangible asset - non-compete agreement	1,150
Intangible asset - customer relationships	2,690
Goodwill	\$7,560

Intangibles and goodwill

Intangible assets at December 31, 2016 were:

Life	Gross Carrying	Accumulated	Net Carrying
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	(in years)	Amount (in thousands)	Amortization	Value
Intangible asset - supply and equipment lease agreements	20	\$12,800	\$ 1,600	\$11,200
Intangible asset - licenses/trademarks	20	1,350	169	1,181
Intangible asset - non-compete agreement	2	1,150	1,150	-
Intangible asset - customer relationships	12	2,690	560	2,130
		\$17,990	\$ 3,479	\$14,511

Intangible assets at December 31, 2015 were:

	Life (in years)	Gross Carrying Amount (in thousands)	Accumulated Amortization	Net Carrying Value
Intangible asset - supply and equipment lease agreements	20	\$12,800	\$ 960	\$11,840
Intangible asset - licenses/trademarks	20	1,350	101	1,249
Intangible asset - non-compete agreement	2	1,150	863	287
Intangible asset - customer relationships	12	2,690	336	2,354
		\$17,990	\$ 2,260	\$15,730

Estimated future intangible amortization expense is \$0.9 million in 2017, 2018, 2019, 2020, and 2021, respectively.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 2—Fabrica Transaction (Continued)**

Goodwill of \$7.6 million represents the premium the Company was willing to pay to enter into a long-term relationship with Fabrica and the benefits the Company expects to receive from being able to cost effectively serve its current customers and to develop relationships with new customers with distribution centers in the western United States. The relationship with Fabrica is expected to provide opportunities for future production capacity and sales growth. Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances occur that more likely than not will reduce the fair value of the reporting unit to below its carrying amount. No goodwill impairment has been recorded as of December 31, 2016. There were no other changes in the carrying amount of goodwill subsequent to the acquisition. All of the goodwill related to the Fabrica Transaction is expected to be tax-deductible.

Operating Results of Business Acquired

The consolidated statements of income include the following revenues and operating income related to the U.S. business acquired from Fabrica:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Revenues	\$42,045	\$ 46,316	\$25,498
Operating income	10,583	10,569	4,896

Operating income included in the above table does not include an allocation of any of the Company's overhead or selling, general and administrative expenses.

Transaction costs of \$1.6 million related to the Fabrica Transaction are recognized in selling, general and administrative expenses in the consolidated statement of income for the year ended December 31, 2014.

Pro Forma Information (unaudited)

The following unaudited pro forma information presents a summary of the operating results of the Company for the year ended December 31, 2014 as if the U.S. business acquired from Fabrica had been included in the Company's results of operations as of January 1, 2014 (dollars in thousands, except per share data):

Pro forma net sales	\$ 156,886
Pro forma net income	11,537
Pro forma net income per share - basic	1.32
Pro forma net income per share - diluted	1.31

Pro forma adjustments to net income include amortization costs related to the intangibles acquired, acquisition related costs, and the tax effect of the historical results of operations of Fabrica's U.S. business, excluding certain mark-up and selling, general and administrative costs that will not be incurred by Orchids.

The pro forma amounts are presented for informational purposes only and are not intended to represent or be indicative of the Company's consolidated results of operations or financial condition that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations or financial condition.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 2—Fabrica Transaction (Continued)***Related party transactions*

The Company incurred the following transactions with Fabrica during the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Products purchased under the Supply Agreement	\$31,974	\$37,373	\$22,726
Amounts billed to Fabrica under the Equipment Lease Agreement	\$1,647	\$2,172	\$1,912
Parent rolls purchased by Fabrica	\$1,777	\$6,119	\$-

Note 3—Fair Value Measurements

The valuation hierarchy included in U.S. GAAP considers the transparency of inputs used to value assets and liabilities as of the measurement date. The less transparent or observable the inputs used to value assets and liabilities, the lower the classification of the assets and liabilities in the valuation hierarchy. A financial instrument's classification within the valuation hierarchy is based on the lowest level of input that is significant to its fair value measurement. The three levels of the valuation hierarchy and the classification of the Company's financial assets and liabilities within the hierarchy are as follows:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly. If an asset or liability has a specified term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3—Unobservable inputs for the asset or liability.

The Company does not report any assets or liabilities at fair value in the financial statements. However, the fair value of the Company's long-term debt is estimated by management to approximate the carrying value of \$142.0 million and \$75.6 million at December 31, 2016 and 2015, 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.

As the Company has no assets or liabilities reported at fair value in the financial statements, there were no transfers among Level 1, Level 2 or Level 3 assets during the years ended December 31, 2016, 2015 and 2014.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****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 467,505 MMBTUs of natural gas, which provides approximately 80% to 90% of the natural gas requirements at Pryor through December 31, 2017.

Commitments under this contract are as follows:

Period	MMBTUs	Price per MMBTU
January 2017 - March 2017	114,850	\$ 4.06
April 2017 - June 2017	117,050	\$ 4.06
July 2017 - September 2017	118,550	\$ 4.06
October 2017 - December 2017	117,055	\$ 4.06

Purchases under the gas contract were \$1.7 million, \$1.7 million, and \$1.9 million in 2016, 2015 and 2014, 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 agreements 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).

Other purchase commitments

In April 2015, Orchids announced projects to build a new integrated paper converting facility in Barnwell, South Carolina. This project has a total estimated cost of approximately \$150.0 million. As part of this project, the Company entered into significant purchase orders for two converting lines and construction of a paper machine. As of December 31, 2016, obligations under purchase orders related to the Barnwell projects totaled approximately \$9.0 million.

Note 5—Inventories

Inventories at December 31 were:

	2016	2015
	(In thousands)	
Raw materials	\$4,855	\$4,467
Bulk paper rolls	3,765	3,789
Converted finished goods	9,859	5,386
Inventory valuation reserve	(65)	(141)
	\$18,414	\$13,501

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 6—Property, Plant and Equipment**

The principal categories and estimated useful lives of property, plant and equipment at December 31 were:

	2016	2015	Estimated Useful Lives
	(In thousands)		
Land	\$1,316	\$1,316	-
Buildings and improvements	37,356	24,321	7 to 40
Machinery and equipment	186,863	141,811	2.5 to 40
Vehicles	1,830	1,796	3 to 5
Nondepreciable machinery and equipment (parts and spares)	11,976	10,250	-
Construction-in-process	81,101	53,431	-
	\$320,442	\$232,925	

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.

The Company capitalizes interest for major capital projects. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful lives of those assets. Interest expense for the years ended December 31, 2016, 2015 and 2014 excludes \$1.7 million, \$0.5 million and \$0.3 million, respectively, of interest capitalized on significant projects during the year.

For the year ended December 31, 2014, other (income) expense includes \$.04 million of expenses related to the demolition of two paper machines in the Company's paper mill, which were replaced with a new paper machine.

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

In June 2015, the Company entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement"), with U.S. Bank National Association ("U.S. Bank"). Additionally, on January 19, 2017, the Company entered into Amendment No. 3 ("the Amendment") which increases the total loan commitment, modifies the pricing grid applicable to interest rates and the unused commitment fee, amends 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 amends 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. The terms of the Credit Agreement, as amended, consist of the following:

a \$25.0 million revolving credit line due June 2020;

a \$47.3 million Term Loan with a 5-year term due June 2020 and payable in quarterly installments of \$675,000 through June 2016 and \$1.0 million per quarter thereafter;

a \$115.0 million delayed draw term loan with a 2-year draw period due June 2020 and payable in quarterly installments beginning in September 2017 of 1.5% of the June 30, 2017 outstanding balance. In December 2015, in connection with the NMTC transaction (see Note 12), the maximum borrowing capacity under the delayed draw term loan was reduced from \$115.0 million to \$99.6 million and in January 2017, under the terms of the Amendment, the maximum borrowing capacity was increased to \$108.5 million; and

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 7—Long-Term Debt and Revolving Line of Credit (Continued)**

an accordion feature allowing the revolving credit line and/or delayed draw commitment under the Credit Agreement to be increased by up to \$50.0 million at any time on or before the expiration date of the Credit Agreement.

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

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

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

Additionally, in connection with the NMTC transaction discussed in Note 12, 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 December 31, 2016, the Company's weighted-average interest rate was 2.64%.

Long-term debt at December 31 consists of:

	2016	2015
	(In thousands)	
Revolving line of credit, maturing on June 25, 2020	\$ 16,447	\$-
Delayed draw term loan, maturing on June 25, 2020	72,342	18,522
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	42,600	45,950
Term loan, maturing on December 29, 2022, due in quarterly installments of \$255,006, including interest	10,577	11,109
Less: unamortized debt issuance costs	(1,249)	(1,342)
	140,717	74,239
Less current portion	6,728	3,882
	\$ 133,989	\$ 70,357

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

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

Unamortized debt issuance costs at December 31 consist of:

	2016	2015
	(In thousands)	
Revolving line of credit	\$229	\$285
Delayed draw term loan, maturing on June 25, 2020	283	344
Term loan, maturing on June 25, 2020	146	182
Term loan, maturing on December 29, 2022	591	531
	\$1,249	\$1,342

The annual maturities of long-term debt at December 31, 2016, are as follows:

Year	Annual Payment Amount (in thousands)
2017	\$ 6,728
2018	8,923
2019	8,950
2020	109,173
2021	666
after 2021	7,526
	\$ 141,966

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 December 31, 2016, the Company's borrowing base was \$15.0 million, including \$6.1 million of eligible accounts receivable and \$8.9 million of eligible inventory.

Obligations under the Credit Agreement and the NMTC loan are secured by substantially all of the Company's assets. The Credit Agreement contains representations and warranties, and affirmative and negative covenants customary for financings of this type, including, but not limited to, limitations on additional borrowings, additional investments and asset sales. The financial covenants, which are tested as of the end of each fiscal quarter, require the Company to maintain the following specific ratios: fixed charge coverage (minimum of 1.20 to 1.0) and leverage (maximum of 5.0 to 1.0 on December 31, 2016; maximum of 5.75 to 1.0 on March 31, 2017; maximum of 5.5 to 1.0 on June 30, 2017, maximum of 4.5 to 1.0 on September 30, 2017, maximum of 4.0 to 1.0 on December 31, 2017, and maximum of 3.5 to 1.0 on March 31, 2018 and thereafter). The Company has the right to prepay borrowings under the Credit Agreement at any time without penalty.

The Company's leverage ratio at December 31, 2016 was 4.26, while the fixed charge coverage ratio was 1.86.

Note 8—Income Taxes

The Company is subject to income tax in the United States and Mexico. Income from continuing operations before taxes subject to United States and foreign income taxes for each of the three years ended December 31, were as follows:

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 8—Income Taxes (Continued)**

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
United States	\$18,280	\$17,902	\$12,169
Foreign	(1,058)	1,710	1,690
Total income before income taxes	\$17,222	\$19,612	\$13,859

The components of the provision for income taxes for each of the three years ended December 31, were as follows:

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Current:			
U.S. Federal	\$(2,934)	\$1,945	\$6,086
U.S. State	(352)	(224)	224
Foreign	127	99	464
	(3,159)	1,820	6,774
Deferred:			
U.S. Federal	7,906	3,930	(3,404)
U.S. State	(568)	-	981
Foreign	232	305	43
	7,570	4,235	(2,380)
Total provision for (benefit from) income taxes	\$4,411	\$6,055	\$4,394

Significant components of the Company's deferred income tax assets and (liabilities) at December 31 were:

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	2016	2015
	(in thousands)	
Deferred income taxes		
Inventories	\$1,576	\$1,168
Prepaid expenses	(209)	(163)
Accrued vacation	70	219
Plant and equipment	(34,114)	(25,552)
State investment tax credit carryforward	7,721	6,005
State net operating loss carryforward	352	-
Stock-based compensation	1,375	1,241
State income taxes - temporary differences	(4,738)	(3,590)
Indian employment and other federal credits	766	-
Intangible assets	(273)	(103)
Other	140	136
Deferred income tax liabilities, net	\$(27,334)	\$(20,639)

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 8—Income Taxes (Continued)**

The following table summarizes the differences between the U.S. federal statutory rate and the Company's effective tax rate for financial statement purposes:

	Year ended December 31,		
	2016	2015	2014
Statutory tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of U.S. federal tax benefit	4.6 %	3.3 %	7.9 %
Indian employment and other federal credits	(2.1)%	(1.2)%	(0.9)%
Employee and board stock compensation	-	0.1 %	(0.1)%
State investment tax credits	(10.0)%	(5.5)%	(0.9)%
Section 199 manufacturing deduction	-	(1.5)%	(2.6)%
Change in estimates	(1.8)%	-	(10.4)%
Foreign income taxes, net of U.S. federal tax credits	(1.1)%	0.6 %	0.3 %
Acquisition costs	-	-	2.4 %
Other	1.0 %	0.1 %	1.0 %
	25.6 %	30.9 %	31.7 %

For the year ended December 31, 2016, the effective tax rate was lower than the statutory rate primarily due to South Carolina Investment Tax Credits (“SCITC”) and Oklahoma Investment Tax Credits (“OITC”) associated with investments in the Company’s manufacturing operations in Barnwell, South Carolina and Pryor, Oklahoma, respectively, and federal credits, including Indian Employment Credits (“IEC”), foreign tax credits and research and development credits.

For the year ended December 31, 2015, the effective tax rate was lower than the statutory rate primarily due to OITC associated with investments in the Company’s manufacturing operations in Pryor, Oklahoma, manufacturing tax deductions and IEC.

For the year ended December 31, 2014, the effective tax rate was lower than the statutory rate primarily due to a change in estimates recognized in 2014, as the Company believes certain deferred tax liabilities will be recognized at amounts and rates other than previously estimated. The effective tax rate for 2014 was also lowered by manufacturing tax deductions and OITC associated with investments in the Company's manufacturing operations in Pryor, Oklahoma. Additionally, in 2014, Orchids began recording current and deferred income taxes in the state of California and the country of Mexico due to impacts of the Fabrica Transaction (see Note 2). Taxes related to California increased the Company's effective tax rate by approximately 3.1%. The Company's earnings in Mexico are subject to the country's 30% income tax rate. The net effect of foreign taxes was not material to the Company's effective tax rate due to U.S. income tax credits related to foreign-sourced income.

The Company has significant carryforwards for the State of Oklahoma which include an OITC of \$3.7 million primarily associated with the Company's \$36 million investment in a new paper machine in 2006, \$20 million investment in a new converting line in 2010, \$26 million investment in another new paper machine and \$8.3 million of assets placed in service for a new converting line in 2015, and approximately \$15 million invested in 2016, including an additional \$6.5 million of assets placed in service for the new converting line and investments in tissue liberation and heating and air upgrades. The Company believes that its future state taxable income will be sufficient to allow realization before the OITC expires in varying amounts from 2028 through 2036. Accordingly, deferred tax assets have been recognized for this credit.

The Company has significant carryforwards for the State of South Carolina, which include a SCITC of approximately \$0.4 million, primarily associated with the Company's \$28 million investment in new converting lines. The Company believes that its future state taxable income will be sufficient to allow realization before the SCITC expires in ten years. Accordingly, deferred tax assets have been recognized for this credit.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 8—Income Taxes (Continued)

The U.S. tax code requires that certain types of income produced by non-U.S. subsidiaries be currently taxed without regard to actual distribution (Subpart F income). Income earned by Orchids Mexico meets the definition of Subpart F income. As a result, U.S. current and deferred federal income tax has been recorded on these earnings. Upon remittance of these earnings, no significant incremental U.S. tax is expected.

Based upon a review of its income tax filing positions, the Company believes that its positions would be sustained upon an audit and does not anticipate any adjustments that would result in a material change to its financial position. However, the 2014 Tax return has been selected for audit by the Internal Revenue Service. The Company recognizes interest related to income taxes as interest expense and penalties as selling, general and administrative expenses. The tax years 2013 through 2016 remain open to examination by major taxing jurisdictions in which the Company files income tax returns.

Note 9—Earnings per Share

During the first quarter of 2013, the Company granted restricted stock to certain employees. These awards include a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders. Therefore, the Company calculates basic and diluted earnings per common share using the two-class method, under which net earnings are allocated to each class of common stock and participating security. The computation of basic and diluted net income per common share for the years ended December 31, 2016, 2015 and 2014, is as follows:

Year ended December 31,		
2016	2015	2014

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	(In thousands, except share and per share data)		
Net income	\$ 12,811	\$ 13,557	\$ 9,465
Less: distributed earnings allocable to participating securities	-	(3)	(7)
Less: undistributed earnings allocable to participating securities	-	-	1
Distributed and undistributed earnings allocable to common shareholders	\$ 12,811	\$ 13,554	\$ 9,459
Weighted average shares outstanding	10,286,373	9,778,167	8,462,875
Effect of stock options	62,901	66,054	75,877
Weighted average shares outstanding - assuming dilution	10,349,274	9,844,221	8,538,752
Net income per common share:			
Basic	\$ 1.25	\$ 1.39	\$ 1.12
Diluted	\$ 1.24	\$ 1.38	\$ 1.11
Stock options not considered above because they were anti-dilutive	614,250	598,000	555,000

Note 10—Stock Incentives

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. The Company's policy is to issue shares of remaining authorized common stock to satisfy option exercises under the 2014 Plan. A total of 400,000 shares may be issued pursuant to the 2014 Plan. As of December 31, 2016, there were 164,200 shares available for issuance under the 2014 Plan. The exercise price of each option is generally equal to the arithmetic mean of the high and low sales price per share of the Company's common stock on the grant date. Options granted to Board members under the Plan generally vest immediately. Options granted to employees generally vest over a service period of zero to five years or are market-based and vest when the share price of the Company's common stock closes at or above a certain percentage of the purchase price of the option for three consecutive business days. Options granted with market-based vesting expire if they remain unvested five years after the grant date. Options granted under the 2014 Plan have a 10-year life.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 10—Stock Incentives (Continued)

Stock options with time-based vesting conditions

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of stock options issued with time-based vesting conditions, as this model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Estimated volatility is calculated based on actual historical volatility of the Company's common stock from the Company's initial public offering date to the grant date. The Company's dividend yield assumption is based on the expected dividend yield as of the grant date. Expected life is calculated based on the average of the service period and the contractual term of the option, using the simplified method for "plain vanilla" options, due to limited available exercise information. 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.

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 weighted-average assumptions used in the Black-Scholes option valuation model for those grants during 2014, 2015 and 2016:

Grant Date	Number of Shares	Exercise Price	Grant		Estimated Volatility	Dividend Yield	Expected Life (in years)
			Date	Risk-Free Interest Rate			
May 2014	35,000	\$ 29.65	\$7.50	2.62 %	41 %	4.72 %	5
Jun 2014	5,000	30.09	7.67	2.63	41	4.65	5
May 2015	40,000	22.49	4.64	2.13	40	6.23	5
Nov 2015	68,000	29.58	7.37	2.32	40	4.73	6
Jan 2016	5,000	27.77	6.56	2.00	40	5.04	6

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May 2016	40,000	31.33	7.57	1.74	40	4.47	5
Sep 2016	20,000	28.48	4.53	1.36	30	4.92	6

In 2015, 3,750 of time-based options granted in 2005 expired unexercised.

Stock options with market-based vesting conditions

The Company uses a Monte Carlo option valuation model to estimate the grant date fair value of stock options issued with market-based vesting conditions, as these options include a market condition. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility, dividend yield and expected life of the option. Estimated volatility is calculated based on a mix of historical and implied volatility during the expected life of the options. Historical volatility is considered since the Company's initial public offering and implied volatility is based on the publicly traded options of a three-company peer group within the paper industry. The Company's dividend yield assumption is based on the Company's average historical dividend yield and current dividend yield as of the grant date. Expected life is calculated based on the average of the service period and the contractual term of the option, using the simplified method for "plain vanilla" options. The Company expenses the cost of these options granted over the implicit, or derived, service period of the option based on the completed Monte Carlo models.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 10—Stock Incentives (Continued)

During 2014 and 2015, the Board of Directors granted options to purchase 145,000 and 28,600 shares, respectively, of the Company's common stock to certain members of management. These options will become exercisable in four equal tranches, if at all, if and when the share price of the Company's common stock closes at or above a certain percentage of the purchase price of the option for three consecutive business days, in accordance with the following vesting schedule:

Share price required to achieve vesting	2014 options	2015 options
Tranche 1	\$ 34.79	\$ 29.56
Tranche 2	42.35	36.00
Tranche 3	51.43	43.71
Tranche 4	60.50	51.43

Any unvested portion of the options shall expire five years from the date of grant and the options shall terminate ten years after the date of grant. The following table details the options granted to certain members of management that were valued using the Monte Carlo valuation model and the assumptions used in the valuation model for those grants during 2014 and 2015:

Grant Date	Number of Shares	Exercise Price	Grant Date Fair Value	Risk-Free Interest Rate	Estimated Volatility	Dividend Yield	Expected Life (in years)	Derived Service Period (in years)
Jan 2014 -Tranche 1	10,000	\$ 31.13	\$ 5.64	1.98	% 31	% 4.50	% 5.15	0.31
Jan 2014 -Tranche 2	10,000	31.13	5.46	1.98	31	4.50	5.58	1.15
Jan 2014 -Tranche 3	10,000	31.13	5.03	1.98	31	4.50	5.97	1.94
Jan 2014 -Tranche 4	10,000	31.13	4.27	1.98	31	4.50	6.25	2.50

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Feb 2014	-Tranche 1	25,000	30.88	5.51	1.98	31	4.60	5.17	0.35
Feb 2014	-Tranche 2	25,000	30.88	5.35	1.98	31	4.60	5.60	1.19
Feb 2014	-Tranche 3	25,000	30.88	4.88	1.98	31	4.60	5.99	1.98
Feb 2014	-Tranche 4	25,000	30.88	4.15	1.98	31	4.60	6.27	2.54
May 2014	-Tranche 1	1,250	28.19	5.06	2.03	31	4.70	5.36	0.71
May 2014	-Tranche 2	1,250	28.19	4.74	2.03	31	4.70	5.78	1.56
May 2014	-Tranche 3	1,250	28.19	4.02	2.03	31	4.70	6.14	2.29
May 2014	-Tranche 4	1,250	28.19	3.29	2.03	31	4.70	6.39	2.79
Sep 2015	-Tranche 1	7,150	25.24	4.44	1.82	34	5.20	5.20	0.40
Sep 2015	-Tranche 2	7,150	25.24	3.92	1.82	34	5.20	5.51	1.02
Sep 2015	-Tranche 3	7,150	25.24	3.11	1.82	34	5.20	5.77	1.54
Sep 2015	-Tranche 4	7,150	25.24	2.36	1.82	34	5.20	5.93	1.87

In 2014, none of these options vested, as the share price of the Company's common stock did not reach any of the share prices required for vesting. Additionally, 25,000 options granted in January 2014 were forfeited when an employee left the Company in 2014. In 2015, Tranche 1 of the options granted in September 2015, or 7,150 options, vested when the share price of the Company's common stock closed above \$29.56 for three consecutive business days. Additionally, 25,000 options granted in February 2014 and 5,000 options granted in May 2014 were forfeited when employees left the Company in 2015. In 2016, Tranche 1 of the options granted in January 2014, or 3,750 options, and Tranche 1 of the options granted in February 2014, or 18,750 options, vested when the share price of the Company's common stock closed above \$34.79 for three consecutive business days. Additionally, 18,750 options granted in February 2014 and 1,800 options granted in September 2015 were forfeited when employees left the Company in 2016.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 10—Stock Incentives (Continued)***Stock options issued outside of the 2014 Plan*

In April 2014, the Company's stockholders voted to approve the options granted to Mr. Jeffrey S. Schoen, the Company's President and Chief Executive Officer, on November 8, 2013. Upon his appointment as an officer of the Company, Mr. Schoen was granted an option to purchase up to 400,000 shares of the common stock of the Company at a purchase price of \$30.25 per share. The option will become exercisable, if at all, if and when the share price of the Company's common stock closes at or above a certain percentage of the purchase price of the option for three consecutive business days, in accordance with the following vesting schedule:

Share price closes at or above the following percentage of the option purchase price of \$30.25	Number of shares that become vested
115% (share price \$34.79)	100,000
140% (share price \$42.35)	100,000
170% (share price \$51.43)	100,000
200% (share price \$60.50)	100,000

These options were granted outside of the 2005 Plan and the 2014 Plan. Any unvested portion of the option shall expire five years from the date of grant and the option shall terminate ten years after the date of grant. The Company used a Monte Carlo option valuation model to estimate the grant date fair value of each tranche of 100,000 options, as they include a market condition. Assumptions used in the valuation model were the same as those for the stock options with market-based vesting conditions issued to employees, which are noted above. The Company expenses the cost of these options granted over the implicit service period of the option based on the completed Monte Carlo models. The following table details the assumption used in the valuation model for the options granted to Mr. Schoen:

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	Number of Shares	Exercise Price	Grant Date Fair Value	Risk-Free Interest Rate	Estimated Volatility	Dividend Yield	Expected Life (in years)	Derived Service Period (in years)
Tranche 1	100,000	\$ 30.25	\$ 5.18	2.10 %	30	% 4.60	% 4.99	0.40
Tranche 2	100,000	\$ 30.25	5.04	2.10	30	4.60	5.42	1.25
Tranche 3	100,000	\$ 30.25	4.31	2.10	30	4.60	5.79	2.00
Tranche 4	100,000	\$ 30.25	3.50	2.10	30	4.60	6.04	2.50

In 2016, Tranche 1 of the options granted to Mr. Schoen, or 100,000 options, vested when the share price of the Company's common stock closed above \$34.79 for three consecutive business days.

Total option expense

The Company recognized the following expenses related to all options granted during 2016, 2015 and 2014 under the 2005 Plan, the 2014 Plan and the Schoen options:

	Year ended December 31,		
	2016	2015	2014
	(In thousands)		
Time-based vesting options	\$ 430	\$ 298	\$ 308
Market-based vesting options	133	705	1,520
Total compensation expense related to stock options	\$ 563	\$ 1,003	\$ 1,828

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 10—Stock Incentives (Continued)

Summary of option activity

The following tables summarize activity related to options granted under the 2005 Plan, the 2014 Plan and the Schoen options:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2013	180,000	\$ 16.46			
Granted	585,000	30.36		\$ 4.83	
Exercised	(5,750)	13.80			\$ 103
Forfeited	(25,000)	31.13			
Balance, December 31, 2014	734,250	27.06			
Granted	136,600	26.59		\$ 5.75	
Exercised	(11,250)	18.64			\$ 50
Forfeited/Expired	(33,750)	27.78			
Balance, December 31, 2015	825,850	27.07			
Granted	65,000	30.18		\$ 6.56	
Exercised	(28,000)	11.22			\$ 606
Forfeited	(24,550)	30.25			
Balance, December 31, 2016	838,300	27.74	7.25 years		\$ 1,271
Exercisable at December 31, 2016	412,100	\$ 25.46	6.92 years		\$ 1,253

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The following table summarizes options outstanding and exercisable under the 2005 Plan, the 2014 Plan and the Schoen options as of December 31, 2016:

Exercise price range	Options Outstanding			Options Exercisable	
	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise Price
\$7.48 - \$8.58	7,500	\$ 8.03	1.79 years	7,500	\$ 8.03
\$11.95 - \$17.85	81,000	\$ 16.10	4.14 years	81,000	\$ 16.10
\$21.70 - \$31.33	749,800	\$ 29.20	7.64 years	323,600	\$ 28.21
	838,300			412,100	

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 10—Stock Incentives (Continued)**

The following table summarizes information about stock option vesting during the years ended December 31:

	Stock Options	
	Vested	Fair Value
	During	
	the Year	(in thousands)
2016	180,100	\$ 1,062
2015	61,750	321
2014	46,334	344

As of December 31, 2016, there was \$359,000 of unrecognized compensation expense related to non-vested stock options with a time-based vesting condition for options granted in 2016 and 2015. This cost is expected to be recognized on a straight-line basis over a weighted average period of 3.2 years. At December 31, 2016, unrecognized compensation expense related to non-vested stock options with a market-based vesting condition for options granted in 2015 was immaterial.

During the years ended December 31, 2016, 2015 and 2014, the Company received \$314,000, \$210,000, and \$79,000, respectively, in proceeds from the exercise of stock options. The Company realized \$211,000, \$23,000, and \$16,000 of tax benefits related to stock option exercises during the years ended December 31, 2016, 2015 and 2014, respectively. Excess tax benefits related to stock option exercises are recorded to additional-paid in capital ("APIC pool") when realized and may be used to offset future tax deficiencies. During the years ended December 31, 2016, 2015 and 2014, the Company recorded excess tax (deficiencies) benefits of \$171,000, (\$6,000), and \$20,000, respectively. As of December 31, 2016, the Company's APIC pool was \$2.0 million.

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 Company expenses 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 \$3,000, \$44,000 and \$51,000 during 2016, 2015 and 2014, respectively, related to the shares granted under the 2005 Plan.

The following tables summarize activity related to unvested restricted stock granted under the 2005 Plan as of December 31, 2016 and for the year then ended:

	Number	Weighted Average Grant Date Fair Value
Balance, December 31, 2015	2,000	\$ 21.70
Vested	(2,000)	21.70
Balance, December 31, 2016	-	

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 10—Stock Incentives (Continued)

The following table summarizes information about restricted stock vesting during the years ended December 31:

	Restricted Stock Vested During the Year	Fair Value (in thousands)
2016	2,000	\$ 53
2015	2,333	63
2014	2,666	58

No shares of restricted stock were granted in the years ending December 31, 2016, 2015 or 2014.

Note 11—Major Customers and Concentration of Credit Risk

Major customers

The Company sells its paper production in the form of parent rolls and converted products. Revenues from converted product sales and parent roll sales in the years ended December 31, 2016, 2015 and 2014 were:

Year ended December 31,

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	2016	2015	2014
	(In thousands)		
Converted product net sales	\$158,102	\$161,052	\$138,382
Parent roll net sales	6,392	7,394	4,342
Total net sales	\$164,494	\$168,446	\$142,724

Credit risk for the Company was concentrated in the following customers who each comprised more than 10% of the Company's total sales during the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Converted product customer 1	36 %	34 %	40 %
Converted product customer 2	*	15	12
Converted product customer 3	14	12	11
Total percent of net sales	50 %	61 %	63 %

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

At December 31, 2016 and 2015, the significant customers accounted for the following amounts of the Company's accounts receivable (in thousands):

	2016		2015	
Converted product customer 1	\$3,703	32 %	\$3,434	32 %
Converted product customer 2	*	*	931	9
Converted product customer 3	702	8	2,071	19
Total of accounts receivable	\$4,405	40 %	\$6,436	60 %

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

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 11—Major Customers and Concentration of Credit Risk (Continued)

No other customers of the Company accounted for more than 10% of sales during these periods. The Company generally does not require collateral from its customers and has not incurred any significant losses on uncollectible accounts receivable.

Paper supply agreement

On February 20, 2008, the Company signed an exclusive supply agreement with Dixie Pulp and Paper, Inc. to supply all of its recycled fiber needs. This agreement was effective beginning April 1, 2008 and carried an initial five-year term through April 1, 2013. However, the agreement automatically renews for successive one-year periods unless either party gives 90 days' notice. As of the date of this report, the Company has not received notice of intention not to renew the agreement nor has the Company provided such a notice to the counterparty, and the agreement is in effect.

Cash in excess of insured limits

Much of the Company's cash is maintained at financial institutions, which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor at each financial institution. At times, balances may exceed these federally insured limits or may be contained in foreign bank accounts, which are not insured by the FDIC. The Company has never experienced any losses related to these accounts. At December 31, 2016, the Company had approximately \$8.0 million of non-interest bearing cash balances in excess of federally insured limits. Additionally, \$1.8 million of the Company's cash was in bank accounts in Mexico, which are not insured by the FDIC.

Note 12—New Market Tax Credit

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

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 12—New Market Tax Credit (Continued)

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.

The investment fund and the community development entities are considered Variable Interest Entities (VIEs) and the Company is the primary beneficiary of the VIEs. This conclusion was reached based on the following:

The ongoing activities of the VIEs—collecting and remitting interest and fees and NMTC compliance—were all considered in the initial design and are not expected to significantly affect performance throughout the life of the VIE;

Contractual arrangements obligate the Company to comply with NMTC rules and regulations and provide various other guarantees to the NMTC Investor and community development entities;

The NMTC Investor lacks a material interest in the underlying economics of the project; and

The Company is obligated to absorb losses of the VIEs.

Because the Company is the primary beneficiary of the VIEs, they have been included in the consolidated financial statements. There are no other assets, liabilities or transactions in these VIEs outside of the financing transactions executed as part of the NMTC transaction.

At December 31, 2016 and 2015, the NMTC Investor's interest of \$5.2 million and \$5.1 million, respectively, is recorded in other long-term liabilities on the consolidated balance sheet, while the outstanding balance of the amount borrowed from U.S. Bank to loan to the investment fund of \$10.0 and \$11.1 million, respectively, is recorded in long-term debt, net of the current portion. At December 31, 2016 and 2015, the Company had approximately \$0.6 million and \$0.4 million, respectively, of debt issuance costs related to the above transactions, which are being amortized over the life of the agreements. Unspent proceeds from the arrangement of approximately \$1.3 million and \$12.0 million at December 31, 2016 and 2015, respectively, are obligated for funding the specified capital assets at the Barnwell facility and are included in restricted cash.

Note 13—ODFA Pooled Financing

In September 2014, the Company entered into an agreement with the Oklahoma Development Finance Authority ("ODFA") whereby the ODFA agreed to provide the Company up to \$3.5 million to fund a portion of the cost of a new paper production line before September 1, 2020. The agreement provides for the Oklahoma state withholding payroll taxes withheld by the Company from its employees to be placed into the Community Economic Development Pooled Finance Revolving Fund – Orchids Paper Products ("Revolving Fund"). Each year on September 1, beginning in 2015 and ending in 2020, the ODFA will return these state withholding taxes in the Revolving Fund to the Company, up to an amount totaling \$3.5 million. These amounts are recognized as a note receivable in other current assets in the consolidated balance sheet and in other income in the consolidated statements of income as they are withheld from employees. As of December 31, 2016 and 2015, the Company had a note receivable of \$536,000 and \$328,000, respectively, related to amounts due under the ODFA pooled financing agreement. The Company recognized income of \$667,000, \$685,000 and \$213,000 in 2016, 2015 and 2014, respectively, related to this agreement.

Note 14—Employee Incentive Bonus and Retirement Plans

The Company sponsors three separate defined contribution plans covering substantially all employees. Company contributions are based on either a percentage of participant contributions or as required by collective bargaining agreements. Participants immediately vest in Company contributions to each of the three plans. Contribution expense recognized by the Company was \$983,000, \$579,000, and \$496,000, for the years ended December 31, 2016, 2015 and 2014, respectively.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2016, 2015 and 2014****Note 15—Selected Quarterly Financial Data (Unaudited)**

	2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Sales	\$47,743	\$39,414	\$39,628	\$37,709
Gross profit	11,381	6,873	6,215	5,680
Operating income	8,282	3,993	3,425	2,986
Net income	5,409	2,568	2,213	2,621
Basic earnings per common share	\$0.53	\$0.25	\$0.21	\$0.25
Diluted earnings per common share	0.52	0.25	0.21	0.25
Dividends per share	0.35	0.35	0.35	0.35
Price per common share				
High	\$30.54	\$35.61	\$36.01	\$27.99
Low	24.80	27.01	26.89	23.35

	2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Sales	\$37,415	\$42,295	\$46,832	\$41,904
Gross profit	4,786	7,719	9,845	8,147
Operating income	1,912	5,102	7,032	5,404
Net income	1,236	3,878	4,742	3,701
Basic earnings per common share	\$0.14	\$0.40	\$0.46	\$0.36
Diluted earnings per common share	0.14	0.39	0.45	0.36
Dividends per share	0.35	0.35	0.35	0.35
Price per common share				
High	\$29.01	\$26.32	\$27.27	\$32.10
Low	25.35	21.49	22.86	26.07

Note 16—Follow-On Stock Offering and Registration of Securities

In April 2015, the Company completed an underwritten public follow-on offering of 1,500,000 shares of its common stock at \$23.00 per share. The underwriters were granted an option to purchase up to an additional 225,000 shares for a period of 30 days, which was not exercised. Net proceeds to the Company were \$32.1 million, after giving effect to expenses incurred related to the offering.

On September 16, 2015, the Company's shelf Registration Statement on Form S-3 (the "Registration Statement") was declared effective by the Securities and Exchange Commission. Pursuant to the Registration Statement, the Company, from time to time, may sell common stock, warrants or units comprised of the other securities described in the Registration Statement, in a single or multiple offerings up to a total dollar amount of \$50,000,000, at prices and terms that will be determined at the time of the offering.

The Company's willingness and ability to raise capital pursuant to the Registration Statement will depend upon a number of circumstances, including, without limitation, the Company's need for additional capital to fund operations, organic growth or acquisitions, the Company's financial and operating performance and the receptiveness of the capital markets to potential offerings by the Company. As of the date of this report, the Company does not have any agreements with respect to the issuance of securities pursuant to the Registration Statement.

ORCHIDS PAPER PRODUCTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2016, 2015 and 2014

Note 17—Subsequent Events

Dividend

On February 14, 2017, the Board of Directors authorized a quarterly cash dividend of \$0.35 per outstanding share of the Company's common stock to be paid on April 3, 2017 to stockholders of record at the close of business on February 27, 2017.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The information required by this item is included in Item 8 of Part II of this report.

(a)(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts is included below. The rest of the schedules required by this item have been omitted as they are not required, not applicable or are included in Item 8 of Part II of this report.

Orchids Paper Products Company and Subsidiaries**Schedule II - Valuation and Qualifying Accounts****Years ended December 31, 2014, 2015 and 2016**

	Balance at	Charged (Credited) to	Charge-off Against	Balance at
	Beginning of	Costs and	Allowances	End of Period
	Period	Expense (1) (2)		
		(In thousands)		
Accounts Receivable Reserve:				
Year ended December 31, 2014				
Bad Debt Reserve	\$ 135	\$19	\$ (1)	\$ 155
Year ended December 31, 2015				
Bad Debt Reserve	155	-	-	155
Year ended December 31, 2016				
Bad Debt Reserve	155	(125)	-	30

Inventory Valuation Reserve:

Year ended December 31, 2014

Inventory Valuation Reserve	\$ 105	\$193	\$ 100	\$ 198
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Year ended December 31, 2015

Inventory Valuation Reserve	198	239	296	141
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Year ended December 31, 2016

Inventory Valuation Reserve	141	434	510	65
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(1) Write-off of uncollectible accounts, net of recoveries

(2) Write-off of obsolete inventory and physical inventory adjustments

(b) Exhibits

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 30, 2017 By: /s/ RODNEY D. GLOSS
Rodney D. Gloss
Chief Financial Officer

Exhibit Index

Exhibit

Number Description

- 3.1 Amended and Restated Certificate of Incorporation of the Registrant dated May 17, 2013, incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-Q (SEC Accession No. 0001104659-13-058279) filed with the SEC on July 31, 2013.
- 3.2 Amended and Restated Bylaws of the Registrant amended May 17, 2013, incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-Q (SEC Accession No. 0001104659-13-058279) filed with the SEC on July 31, 2013.
- 4.1 Specimen Stock Certificate, incorporated by reference to Exhibit 4.1 to the Registrant's Amendment No. 2 to its Registration Statement on Form S-1/A (SEC Accession No. 0000950137-05-007858) filed with the SEC on June 24, 2005.
- 10.1# Form of Incentive Stock Option Agreement incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (SEC Accession No. 0000950138-09-000048) filed with the SEC on January 26, 2009.
- 10.2# Orchids Paper Products Company Stock Incentive Plan, amended May 19, 2011, incorporated by reference to Exhibit 10.1 to the Registrant's Form S-8 (SEC Accession No. 0000950138-11-000411) filed with the SEC on July 1, 2011.
- 10.3# Orchids Paper Products Company 2014 Stock Incentive Plan, incorporated by reference to the Registrant's Definitive Proxy Statement (SEC Accession No. 0001047469-14-001834) filed with the SEC on March 5, 2014.
- 10.4# Employment Agreement dated February 27, 2009 and effective as of March 1, 2009, between Keith R. Schroeder and the Registrant, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (SEC Accession No. 0000950138-09-000171) filed with the SEC on March 2, 2009.
- 10.5# Executive Employment Agreement effective as of November 8, 2013, between the Registrant and Jeffrey S. Schoen, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A (SEC Accession No. 0001144204-14-004735) filed with the SEC on January 29, 2014.
- 10.6# Nonqualified Stock Option Agreement effective as of November 8, 2013, between the Registrant and Jeffrey S. Schoen, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K/A (SEC Accession No. 0001144204-14-004735) filed with the SEC on January 29, 2014.
- 10.7* Supplier Agreement dated February 20, 2008 and effective as of April 1, 2008, between Dixie Pulp & Paper, Inc. and the Registrant, incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (SEC Accession No. 0000950137-080-00) filed with the SEC on May 2, 2008.

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- 10.8 Asset Purchase Agreement, dated as of May 5, 2014, among the Registrant, Orchids Mexico (DE) Holdings, LLC and Fabrica de Papel San Francisco, S.A. de C.V., incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (SEC Accession No. 0001104659-14-034678) filed with the SEC on May 5, 2014.
- 10.9# Orchids Paper Products Company Annual Bonus Plan, incorporated by reference to the Registrant's Form 10-K (SEC Accession No. 0001437749-15-004472) filed with the SEC on March 9, 2015.

Exhibit

Number Description

- 10.10 Second Amended and Restated Credit Agreement, dated as of June 25, 2015, among Orchids, U.S. Bank National Association, as administrative agent, lead arranger and sole book runner, the lenders named therein, and JPMorgan Chase Bank, N.A., as documentation agent, incorporated by reference to the Registrant's Current Report on Form 8-K (SEC Accession No. 0001144204-15-039721) filed with the SEC on June 29, 2015.
- 10.11 Amendment No. 1 to Second Amended and Restated Credit Agreement, dated as of November 6, 2015, among Orchids and U.S. Bank National Association, as administrative agent, incorporated by reference to the Registrant's Form 10-Q (SEC Accession No. 0001437749-15-020194) filed with the SEC on November 9, 2015.
- 10.12 Amendment No. 2, dated as of December 29, 2015, to Second Amended and Restated Credit Agreement, dated as of June 25, 2015, among Orchids and U.S. Bank National Association, as administrative agent, incorporated by reference to the Registrant's Current Report on Form 8-K (SEC Accession No. 0001437749-16-023119) filed with the SEC on January 5, 2016.
- 10.13 Amendment No. 3, dated as of January 19, 2017 to Second Amended and Restated Credit Agreement, dated as of June 25, 2015, among Orchids and U.S. Bank National Association, as administrative agent, incorporated by reference to the Registrant's Current Report on Form 8-K (SEC Accession No. 0001144204-17-003431) filed with the SEC on January 23, 2017.
- 10.14### Form of Indemnification Agreement between the Registrant and each of its Directors and Officers.
- 21### Subsidiaries of the Company.
- 23.1 Consent of Independent Registered Public Accounting Firm—HoganTaylor LLP.
- 31.1 Certification Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for Jeffrey S. Schoen.
- 31.2 Certification Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for Rodney D. Gloss.
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jeffrey S. Schoen.
- 32.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Rodney D. Gloss.
- 101### The following financial information from Orchids Paper Products Company's Annual Report on Form 10- K for the fiscal year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income for the fiscal years ended December 31, 2016, 2015 and 2014, (ii) Consolidated Balance Sheets as of December 31, 2016 and 2015, (iii) Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended December 31, 2014, 2015 and 2016, (iv) Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2016, 2015 and 2014, and (v) Consolidated Notes to Financial Statements.

- # Indicates management contract or compensatory plan
- ## Previously filed with our Annual Report on Form 10-K filed on March 15, 2017.

- * Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.