

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION

In re: Bear Island Paper Company, L.L.C.
Case No. 10-31202 (DOT)

MONTHLY OPERATING REPORT

MAY 1, 2010 THROUGH MAY 31, 2010

Required Documents	Form No.	Documents Attached	Explanation Attached	Affidavit/Supplement Attached
Balance Sheet	MOR-1	X		
Income Statement	MOR-2	X		
Cash Receipts and Disbursements	MOR-3	X		
Accounts Receivable Aging	MOR-4a	X		
Aging of Postpetition Payables	MOR-4b	X		
Status of Postpetition Taxes - See note below.	MOR-4c		X	
Bank Reconciliations	MOR-5a	X		
Investment Accounts	MOR-5b		X	
Cash	MOR-5c	X		
Insider Payments	MOR-6a		X	
Restructuring Professional Payments	MOR-6b	X	X	
Postpetition Status of Leases Payable	MOR-6c	X		
Adequate Protection Payments	MOR-6d		X	
Debtor Questionnaire	MOR-7a	X		X
Insurance	MOR-7b	X		
Installment Payments	MOR-7c	X		

Note: Bear Island Paper Company, L.L.C. is current on all tax obligations as of May 31, 2010.

IN ACCORDANCE WITH TITLE 28, SECTION 1746, OF THE UNITED STATES CODE, I DECLARE UNDER PENALTY OF PERJURY THAT I HAVE EXAMINED THE FOLLOWING MONTHLY OPERATING REPORT (MOR-1 THROUGH MOR-7) AND THE ACCOMPANYING ATTACHMENTS AND, TO THE BEST OF MY KNOWLEDGE, THESE DOCUMENTS ARE TRUE, CORRECT AND COMPLETE. DECLARATION OF THE PREPARER (OTHER THAN RESPONSIBLE PARTY) IS BASED ON ALL INFORMATION OF WHICH PREPARER HAS ANY KNOWLEDGE.

RESPONSIBLE PARTY:


ORIGINAL SIGNATURE OF RESPONSIBLE PARTY

Jay A. Epstein
PRINTED NAME OF RESPONSIBLE PARTY

Vice President Finance, Treasurer & Secretary
TITLE

June 25, 2010
DATE

PREPARER:


ORIGINAL SIGNATURE OF PREPARER

Eric A. Goebel
PRINTED NAME OF PREPARER

Manager, Cash/Treasury
TITLE

June 25, 2010
DATE

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BALANCE SHEET (MOR-1)

MAY 31, 2010

(IN USD)

ASSETS

CURRENT ASSETS :

Cash		\$	5,460,073
Accounts Receivable - Trade			12,498,672
Accounts Receivable - Other			135,761
Due from White Birch Paper Company			1,899,486
Inventory:			
Raw Materials & Stores	\$	9,745,090	
Finished Goods		<u>3,464,003</u>	13,209,093
Timberdeeds			1,000
Deposits, Prepaid Expenses and Other			<u>1,898,035</u>
Total Current Assets			<u>35,102,120</u>

FIXED ASSETS:

Machinery & Equipment	\$	252,345,422	
Timberlands		<u>1,067,654</u>	
		253,413,076	
Less - Accumulated Depreciation and Depletion		<u>(145,134,419)</u>	<u>108,278,657</u>

Total Assets \$ 143,380,777

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts Payable and Accrued Liabilities		\$	11,263,815
Accrued Service Charge			88,898
Current Portion Capitalized Leases			<u>98,487</u>
Total Current Liabilities			11,451,200

LIABILITIES SUBJECT TO COMPROMISE:

Intercompany F.F. Soucy L.P.		5,738	
Intercompany Brant Industries, Inc		59,822	
Accounts Payable		8,136,501	
Intercompany White Birch Paper Company		<u>135,854,779</u>	<u>144,056,840</u>

Total Liabilities 155,508,040

STOCKHOLDERS' EQUITY

Contributed Capital		97,371,253	
Retained Earnings (Deficit)		<u>(109,498,516)</u>	
Total Stockholders' Equity		<u>(12,127,263)</u>	
Total Liabilities and Stockholders' Equity	\$	<u><u>143,380,777</u></u>	

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INCOME STATEMENT (MOR-2)
MONTH OF MAY
(IN USD)

	<u>2010</u>	<u>2009</u>
	<u>MONTH OF</u> <u>MAY</u>	<u>MONTH OF</u> <u>MAY</u>
SALES		
Gross	\$ 11,485,805	\$ 7,834,085
Freight	(970,740)	(372,196)
Net Sales	<u>10,515,065</u>	<u>8,728,576</u>
COST OF GOODS SOLD	<u>(10,504,713)</u>	<u>(8,048,405)</u>
Gross Profit (Loss)	10,352	(586,516)
GENERAL AND ADMINISTRATIVE EXPENSE		
Sales Commission	(344,574)	(235,022)
Other	(295,647)	(35)
Operating Profit (Loss)	<u>(629,869)</u>	<u>(821,573)</u>
OTHER INCOME (EXPENSE)		
Interest Income	0	51
Interest Expense	0	0
Other Income	0	0
Net Income (Loss)	<u>(629,869)</u>	<u>(821,522)</u>
DEFICIT BEGINNING OF PERIOD	(108,868,647)	(81,115,680)
PRIOR PERIOD ADJUSTMENT	0	0
DISTRIBUTION DURING THE PERIOD	<u>0</u>	<u>0</u>
DEFICIT END OF PERIOD	<u>\$ (109,498,516)</u>	<u>\$ (81,937,202)</u>

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CASH RECEIPTS AND DISBURSEMENTS (MOR-3)
MAY 1, 2010 THROUGH MAY 31, 2010
BOOK BALANCE (IN USD)

	CURRENT PERIOD 5/1/2010 - 5/31/2010	CUMULATIVE FILING TO DATE
BEGINNING CASH		
1. CASH - BEGINNING OF PERIOD	\$ 6,768,133	\$ 4,106,521
RECEIVABLES FROM WHITE BIRCH		
2. CASH RECEIVABLES	\$ 1,104,369	\$ 2,146,607
COLLECTION OF ACCOUNTS RECEIVABLE		
3. PREPETITION	\$ 815,749	\$ 12,458,973
4. POSTPETITION	\$ 8,507,727	\$ 19,337,126
5. TOTAL OPERATING RECEIPTS	\$ 9,323,476	\$ 31,796,099
NON - OPERATING RECEIPTS		
6. LOANS & ADVANCES (ATTACH LIST)	\$ -	\$ -
7. SALE OF ASSETS	\$ -	\$ -
8. OTHER (ATTACH LIST)	\$ -	\$ -
9. TOTAL NON-OPERATING RECEIPTS	\$ -	\$ -
10. TOTAL RECEIPTS	\$ 10,427,845	\$ 33,942,706
11. TOTAL CASH AVAILABLE	\$ 17,195,978	\$ 38,049,227
OPERATING DISBURSEMENTS		
12. PAYROLL RELATED	\$ 1,287,006	\$ 4,375,642
13. CHEMICALS	\$ 846,212	\$ 2,079,749
14. CLOTHING, WIRES AND FELTS	\$ 136,929	\$ 820,890
15. SERVICES	\$ 336,155	\$ 1,169,528
16. EMPLOYEE RELATED	\$ 12,159	\$ 46,980
17. EQUIPMENT	\$ 446,672	\$ 1,315,196
18. FREIGHT	\$ 760,180	\$ 2,617,463
19. INVENTORY	\$ 457,551	\$ 1,207,415
20. LEASES	\$ 6,965	\$ 86,960
21. MISCELLANEOUS	\$ 19,386	\$ 108,272
22. OFFICE SUPPLIES AND INSURANCE	\$ 345,186	\$ 698,056
23. OPERATING SUPPLIES	\$ 26,755	\$ 118,038
24. RECYCLED FIBER	\$ 1,101,536	\$ 3,119,557
25. WOOD FIBER	\$ 1,024,859	\$ 3,311,695
24. UTILITIES	\$ 2,448,494	\$ 8,405,462
25. TAXES	\$ 8,597	\$ 22,378
25. CORPORATE DISBURSEMENTS - MGMT FEE	\$ 284,610	\$ 899,220
26. TOTAL OPERATING DISBURSEMENTS	\$ 9,549,252	\$ 30,402,501
REORGANIZATION EXPENSES		
27. PROFESSIONAL FEES	\$ 274,167	\$ 274,167
28. U.S. TRUSTEE FEES	\$ 13,000	\$ 13,000
29. OTHER (ATTACH LIST)	\$ -	\$ -
30. TOTAL REORGANIZATION EXPENSES	\$ 287,167	\$ 287,167
31. TOTAL DISBURSEMENTS	\$ 9,836,419	\$ 30,689,668
CASH HELD BY WHITE BIRCH PAPER		
32. CASH RECEIVABLE FROM WHITE BIRCH	\$ 1,899,486	\$ 1,899,486
ENDING CASH		
33. CASH - END OF MONTH	\$ 5,460,073	\$ 5,460,073

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ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND TAXES (MOR 4)
AS OF MAY 31, 2010
(IN USD)

ACCOUNTS RECEIVABLE AGING (MOR-4a)	
AGING PERIOD	AMOUNT
1. 0-30	\$12,947,743
2. 31-60	\$1,524,428
3. 61-90	\$297,339
4. 91+	\$99,680
5. TOTAL ACCOUNTS RECEIVABLE	\$14,869,190
6. AMOUNT CONSIDERED UNCOLLECTIBLE	\$2,234,757
7. ACCOUNTS RECEIVABLE (NET)	\$12,634,433

AGING OF POSTPETITION PAYABLES (MOR-4b)					
PAYABLE	0-30 DAYS	31-60 DAYS	61-90 DAYS	91+ DAYS	TOTAL
1. ACCOUNTS PAYABLE ⁽¹⁾	\$2,436,591	\$27,133	\$0	\$0	\$2,463,724

NOTE 1: All postpetition accounts payable are current.

STATUS OF POSTPETITION TAXES (MOR-4c)				
	BEGINNING TAX LIABILITY	AMOUNT WITHHELD AND/OR ACCRUED	AMOUNT PAID	TOTAL
FEDERAL	See Note 2 Below			
1. WITHHOLDING				
2. FICA-EMPLOYEE				
3. FICA-EMPLOYER				
4. UNEMPLOYMENT				
5. INCOME				
6. OTHER (ATTACH LIST)				
7. TOTAL FEDERAL TAXES				
STATE AND LOCAL				
8. WITHHOLDING				
9. SALES				
10. EXCISE				
11. UNEMPLOYMENT				
12. REAL PROPERTY				
13. PERSONAL PROPERTY				
14. OTHER (ATTACH LIST)				
15. TOTAL STATE & LOCAL				
16. TOTAL TAXES				

NOTE 2: Bear Island Paper Company, L.L.C. is current on all tax obligations as of May 31, 2010.

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BANK RECONCILIATIONS, INVESTMENT ACCOUNTS AND CASH (MOR-5)
AS OF MAY 31, 2010
(IN USD)

The debtor in possession must complete the reconciliation below for each bank account, including all general, payroll and tax accounts, as well as all savings and investment, accounts, money market accounts, certificates of deposit, government obligations, etc. Accounts with restricted funds should be identified by placing an asterisk next to the account number. Attach additional sheets if necessary.

BANK RECONCILIATIONS (MOR-5a)							
	ACCOUNT #1	ACCOUNT #2	ACCOUNT #3	ACCOUNT #4	ACCOUNT #5	ACCOUNT #6	TOTAL
A. BANK:	HSBC Bank USA, NA ⁽¹⁾	HSBC Bank USA, NA	HSBC Bank USA, NA	Suntrust Bank ⁽¹⁾⁽²⁾	Suntrust Bank ⁽²⁾	Suntrust Bank ⁽²⁾	
B. ACCOUNT NUMBER:	XXX-XX011-7	XXX-XX064-8	XXX-XX063-0	XXXXX0374	XXXXX4341	XXXXX0404	
C. PURPOSE (TYPE):	Collection Acct. (USD)	Payables Disb. (USD)	Payroll Disb. (USD)	Collection Acct. (USD)	Payables Disb. (USD)	Payroll Disb. (USD)	
1. BALANCE PER BANK STATEMENT	\$ -	\$ 6,705,681	\$ -	\$ -	\$ -	\$ -	\$ 6,705,681
2. ADD. TOTAL DEPOSITS NOT CREDITED	\$ -	\$ -	\$ -	\$ -	\$ 316	\$ -	\$ 316
3. SUBTRACT. OUTSTANDING CHECKS	\$ -	\$ (1,249,468)	\$ (15,635)	\$ -	\$ -	\$ -	\$ (1,265,103)
4. OTHER RECONCILING ITEMS	\$ -	\$ 3,544	\$ 15,635	\$ -	\$ -	\$ -	\$ 19,179
5. MONTH END BALANCE PER BOOKS	\$ -	\$ 5,459,757	\$ -	\$ -	\$ 316	\$ -	\$ 5,460,073
6. NUMBER OF LAST CHECK WRITTEN	N/A	11934	N/A	N/A	N/A	N/A	

NOTE 1: Amounts for HSBC account XXX-XX011-7 are included with HSBC account XXX-XX064-8 and amounts for Suntrust account XXXXX0374 are included with Suntrust account XXXXX4341.
NOTE 2: All Suntrust accounts are in the process of being closed.

INVESTMENT ACCOUNTS (MOR-5b)							
BANK, ACCOUNT NAME & NUMBER	DATE OF PURCHASE	TYPE OF INSTRUMENT	PURCHASE PRICE	DATE OF PURCHASE	TYPE OF INSTRUMENT	PURCHASE PRICE	CURRENT VALUE
7. NONE							
8.							
9.							
10.							
11. TOTAL INVESTMENTS							

CASH (MOR-5c)	
12. CURRENCY ON HAND	\$ 700
13. TOTAL CASH - END OF MONTH (BOOK BALANCE)	\$ 5,460,773

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**PAYMENTS TO INSIDERS, RESTRUCTURING PROFESSIONALS, POSTPETITION STATUS OF
LEASES PAYABLE AND ADEQUATE PROTECTION PAYMENTS (MOR 6)
MAY 1, 2010 THROUGH MAY 31, 2010 (IN USD)**

OF THE TOTAL DISBURSEMENTS SHOWN FOR THE MONTH, LIST THE AMOUNT PAID TO INSIDERS (AS DEFINED IN SECTION 101 (31) (A)-(F) OF THE U.S. BANKRUPTCY CODE) AND TO PROFESSIONALS. ALSO, FOR PAYMENTS TO INSIDERS, IDENTIFY THE TYPE OF COMPENSATION PAID (e.g. SALARY, BONUS, COMMISSIONS, INSURANCE, HOUSING ALLOWANCE, TRAVEL, CAR ALLOWANCE, ETC.) ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSIDERS (MOR-6a)			
NAME	TYPE OF PAYMENT	AMOUNT	TOTAL PAID TO DATE
1. None			
2.			
3.			
4.			
5.			
6. TOTAL PAYMENTS TO INSIDERS			

RESTRUCTURING PROFESSIONALS (MOR-6b) ⁽¹⁾					
NAME	INVOICE DATE	INVOICE NUMBER	PAYMENT DATE	AMOUNT PAID	PERIOD COVERED
1. AlixPartners LLP/White Birch	5/4/2010	2025305	5/5/2010	\$220,080	4/1/2010 through 4/30/2010
2. AlixPartners LLP/Bear Island	3/31/2010	2025079	5/25/2010	\$185,641	2/24/2010 through 3/31/2010
3. Rothschild	5/13/2010	0510 NAA WHB2	5/25/2010	\$150,325	5/1/2010 through 5/31/2010
4. Kirkland & Ellis/White Birch	5/11/2010	3578329-332	5/13/2010	\$31,699	2/24/2010 through 3/31/2010
5. Troutman Sanders/Bear Island	4/9/2010	1269804	5/4/2010	\$76,406	3/1/2010 through 3/31/2010
6. Troutman Sanders/White Birch	5/6/2010	1275821	5/7/2010	\$1,563	4/1/2010 through 4/30/2010
7. TOTAL PROFESSIONAL FEES				\$665,714	

NOTE 1: White Birch Paper Company remits most but not all payments in exchange for services related to Bear Island's restructuring and subsequently will transfer charges allocated to Bear Island using intercompany transfers. However, due to the cross-border nature of White Birch's business and these proceedings, payments identified here concern amounts expended not only for Bear Island's restructuring, but for certain of its affiliates as well. These payments are identified in the aggregate amount and no attempt has been made to apportion any amounts to the respective entities that incurred specific charges for services provided. This schedule excludes payments made by White Birch that are solely related to its Canadian affiliates.

POSTPETITION STATUS OF LEASES PAYABLE (MOR-6c)			
NAME OF CREDITOR	SCHEDULED MONTHLY PAYMENTS DUE	AMOUNTS PAID DURING PERIOD	TOTAL UNPAID POSTPETITION
1. Ford Motor Credit	3	\$0	\$2,243
2. Ford Motor Credit	5	\$0	\$2,270
3. Toyota Financial Services	22	\$446	\$9,816
4. Well Fargo Financial Leasing	13	\$1,431	\$18,599
5. Caterpillar Financial Services	24	\$0	\$70,551
6. Caterpillar Financial Services	19	\$0	\$54,180
7. General Electric Capital Corp.	13	\$5,088	\$66,144
8. NMHG Financial Services (VBS)	22	\$0	\$76,780
9. NMHG Financial Services (VBS)	0	\$0	\$0
10. VBS	36	\$0	\$126,288
11. Pitney Bowes	1 ⁽²⁾	\$0	\$1,742
12. TOTAL		\$6,965	\$428,613

NOTE 2: Payments are made quarterly to Pitney Bowes.

ADEQUATE PROTECTION PAYMENTS (MOR-6d)				
NAME OF CREDITOR	CHECK NUMBER	CHECK DATE	DEPOSIT TYPE	CHECK AMOUNT
1. None				
2.				
3.				
4. TOTAL				

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QUESTIONNAIRE, INSURANCE AND INSTALLMENT PAYMENTS (MOR-7)

QUESTIONNAIRE (MOR-7a)		
	YES	NO
1. HAVE ANY ASSETS BEEN SOLD OR TRANSFERRED OUTSIDE THE NORMAL COURSE OF BUSINESS THIS REPORTING PERIOD?		X
2. HAVE ANY FUNDS BEEN DISBURSED FROM ANY ACCOUNT OTHER THAN A DEBTOR IN POSSESSION ACCOUNT?	X	
3. ARE ANY POSTPETITION RECEIVABLES (ACCOUNTS, NOTES, OR LOANS) DUE FROM RELATED PARTIES?	X	
4. HAVE ANY PAYMENTS BEEN MADE ON PREPETITION LIABILITIES THIS REPORTING PERIOD?	X	
5. HAVE ANY POSTPETITION LOANS BEEN RECEIVED BY THE DEBTOR FROM ANY PARTY?	X	
6. ARE ANY POSTPETITION PAYROLL TAXES PAST DUE?		X
7. ARE ANY POSTPETITION STATE OR FEDERAL INCOME TAXES PAST DUE?		X
8. ARE ANY POSTPETITION REAL ESTATE TAXES PAST DUE?		X
9. ARE ANY OTHER POSTPETITION TAXES PAST DUE?		X
10. ARE ANY AMOUNTS OWED TO POSTPETITION CREDITORS DELINQUENT?		X
11. HAVE ANY PREPETITION TAXES BEEN PAID DURING THE REPORTING PERIOD?	X	
12. ARE ANY WAGE PAYMENTS PAST DUE?		X

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "YES," PROVIDE A DETAILED EXPLANATION OF EACH ITEM. ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSURANCE (MOR-7b)		
	YES	NO
1. ARE WORKER'S COMPENSATION, GENERAL LIABILITY AND OTHER NECESSARY INSURANCE COVERAGES IN EFFECT?	X	
2. ARE ALL PREMIUM PAYMENTS PAID CURRENT?	X	
3. PLEASE ITEMIZE POLICIES BELOW.		

IF THE ANSWER TO ANY OF THE ABOVE QUESTIONS IS "NO," OR IF ANY POLICIES HAVE BEEN CANCELLED OR NOT RENEWED DURING THIS REPORTING PERIOD, PROVIDE AN EXPLANATION BELOW. ATTACH ADDITIONAL SHEETS IF NECESSARY.

INSURANCE POLICY ITEMIZATION (MOR-7b #3)		
TYPE OF POLICY	POLICY NUMBER	CARRIER
Excess Fiduciary Liability	MNN587506	Axis Insurance Company
Property	1-72576-XG633	The Factory Mutual Company
Ocean Cargo	0025-89-08DTO	Chubb Group of Insurance Companies
Crime	10BDDAP1041	The Hartford
Pension and Welfare Benefit Plan Fiduciary Liability	14-MG-09-A9767	Houston Casualty Company
Directors, Officers and Organization Liability	14-MGU-09-A19390	U.S. Specialty Insurance Company
Excess Liability Insurance	TL2-621-093858-019	Liberty Mutual Insurance Company
Commercial Excess Liability Umbrella	YSM-CUP-7359N472-TIL-09	Travelers Property Casualty Company of America
Commercial General Liability and Employee Benefits	Y-660-77N4110-COF-09	The Charter Oak Fire Insurance Company
Commercial Automobile	Y-8107359N460-TIL-09	Travelers Property Casualty Company of America

INSTALLMENT PAYMENTS (MOR-7c) ⁽¹⁾			
TYPE OF POLICY	CARRIER	PERIOD COVERED	PAYMENT AMOUNT & FREQUENCY
Financing Agreement	AFCO Insurance Premium Finance	7/31/2009 through 7/31/2010	\$21,605/monthly
Financing Agreement	First Insurance Funding Corp.	6/28/2009 through 6/28/2010	\$19,202/monthly

NOTE 1: All insurance premiums are paid by White Birch Paper Company and charged to Bear Island through intercompany transactions. The payment amounts included here are the amounts allocated to Bear Island only.

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RESPONSE TO QUESTIONS 2, 3 & 5 FROM MOR-7a

Question #2 - White Birch remits all payments in exchange for services related to Bear Island's restructuring, as well as insurance coverage, and subsequently transfers charges allocated to Bear Island using intercompany transfers.

Question #3 - As part of the company's cash management system, White Birch receives customer receipts and deposits them into a White Birch owned lockbox. Then, when available, cash in an amount equal to the receivables owed to Bear Island is transferred from the White Birch lockbox to a Bear Island owned HSBC account. The cash receivable from White Birch to Bear Island on May 31, 2010 was \$1,899,486. For additional information regarding Bear Island's cash management system, please see *Motion of Bear Island Paper Company, L.L.C. for Entry of an Order Authorizing, but not Directing, the Debtor to: (A) Continue Using Its Existing Cash Management System, Bank Accounts and Business Forms; (B) Maintain Existing Investment Practices; and (C) Continue Performing Ordinary Course Intercompany Transactions* [Docket No. 8]

Question #5 - Although Bear Island Paper Company, L.L.C. is a borrower under the \$140,000,000 Senior Secured Super Priority Debtor-In-Possession Term Loan Credit Agreement (the "DIP Facility"), all funds borrowed under the DIP Facility are held by White Birch Paper Company and F.F. Soucy Inc. & Partners L.P. No funds borrowed under the DIP Facility have been transferred to Bear Island.

RESPONSE TO QUESTIONS 4 & 11 FROM MOR-7a
PAYMENTS FOR PREPETITION LIABILITIES
MAY 1, 2010 THROUGH MAY 31, 2010 (IN USD)

PAYMENTS FOR PREPETITION LIABILITIES					
PAYMENT CATEGORY	DATE OF COURT ORDER AUTHORIZING PAYMENT	AMOUNT APPROVED	AMOUNT PAID	TOTAL PAID TO DATE	TOTAL INCURRED & UNPAID
1. COMMON CARRIER/LIEN	2/26/2010	\$1,900,000	\$1,052	\$950,432	\$115,404
2. TAXES	2/26/2010 AND 3/24/2010	\$250,000	\$76	\$11,658	\$174,132
3. WAGES & BENEFITS	2/26/2010 AND 3/24/2010	UNLIQUIDATED	\$465	\$589,823	50
4. INSURANCE	2/26/2010 AND 3/24/2010	\$41,000 PER MONTH	\$21,605	\$103,219	\$103,219
5. TOTAL			\$23,198	\$1,655,132	\$392,755