

CELLU TISSUE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>August 27, 2009</u>	<u>August 28, 2008</u>	<u>August 27, 2009</u>	<u>August 28, 2008</u>
Net sales	\$ 137,796,650	\$ 133,012,856	\$ 256,724,872	\$ 247,540,417
Cost of goods sold	115,154,471	122,012,927	214,269,375	224,752,584
Gross profit	<u>22,642,179</u>	<u>10,999,929</u>	<u>42,455,497</u>	<u>22,787,833</u>
Selling, general and administrative expenses	5,164,488	4,163,350	10,434,429	9,123,192
Terminated acquisition-related transaction costs	-	65,044	-	140,044
Stock compensation expense	191,260	226,987	422,480	445,493
Amortization expense	1,079,268	802,435	2,135,692	802,435
Income from operations	<u>16,207,163</u>	<u>5,742,113</u>	<u>29,462,896</u>	<u>12,276,669</u>
Interest expense, net	12,331,443	6,061,057	18,837,994	11,040,745
Foreign currency loss	356,287	127,700	713,226	84,620
Other expense (income)	(355,871)	8,910	(372,445)	38,418
Income before income tax (benefit) expense	<u>3,875,304</u>	<u>(455,554)</u>	<u>10,284,121</u>	<u>1,112,886</u>
Income tax (benefit) expense	1,157,830	(208,471)	5,255,782	367,499
Net income (loss)	<u>\$ 2,717,474</u>	<u>\$ (247,083)</u>	<u>\$ 5,028,339</u>	<u>\$ 745,387</u>

CELLU TISSUE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	<u>August 27,</u> <u>2009</u>	<u>February 28,</u> <u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$22,026,586	\$ 361,035
Receivables, net	50,608,827	54,065,899
Inventories	39,240,582	47,216,049
Prepaid expenses and other current assets	2,762,231	2,085,774
Income tax receivable	114,076	174,084
Deferred income taxes	6,076,578	3,515,295
Total Current Assets	<u>120,828,880</u>	<u>107,418,136</u>
Property, Plant and Equipment, net	304,560,737	301,987,941
Goodwill	41,020,138	41,020,138
Other intangibles	29,536,785	31,672,477
Other assets	10,501,950	1,948,108
Total Assets	<u>\$506,448,490</u>	<u>\$484,046,800</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Bank overdrafts	\$ -	\$ 3,285,420
Revolving line of credit	-	18,530,824
Accounts payable	22,200,416	16,726,143
Accrued expenses	26,334,867	26,548,639
Accrued interest	7,042,583	10,160,124
Other current liabilities	16,730,056	17,448,707
Current portion of long-term debt	760,000	760,000
Total Current Liabilities	<u>73,067,922</u>	<u>93,459,857</u>
Long-term debt, less current portion	268,352,692	242,361,944
Deferred income taxes	80,065,490	75,110,277
Other liabilities	6,091,431	5,378,059
Stockholders' Equity:		
Common stock, Class A, \$.01 par value, 1,000 shares authorized, 100 shares issued and outstanding	1	1
Capital in excess of par value	71,371,341	70,948,860
Accumulated earnings	8,726,410	3,698,071
Accumulated other comprehensive loss	(1,226,797)	(6,910,269)
Total Stockholders' Equity	<u>78,870,955</u>	<u>67,736,663</u>
Total Liabilities and Stockholders' Equity	<u>\$506,448,490</u>	<u>\$484,046,800</u>

CELLU TISSUE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	<u>Six Months</u> <u>August 27, 2009</u>	<u>Ended</u> <u>August 28, 2008</u>
Cash flows from operating activities		
Net income	\$5,028,339	\$745,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,050,067	11,722,167
Amortization of intangibles	2,135,692	802,435
Amortization of deferred financing fees	479,707	70,197
Accretion of debt discount	976,448	600,929
Loss from write-off of discount on notes	1,911,471	-
Write-off of deferred financing fees	299,803	-
Stock-based compensation	422,480	445,493
Deferred income taxes	2,393,930	183,283
Loss on disposal of fixed asset	147,241	-
Loss from natural gas swaps	-	835,484
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	4,287,654	(10,094,518)
Inventories	8,699,026	(611,272)
Prepaid expenses, other current assets and income tax receivable	(757,153)	254,655
Other	368,092	(665,725)
Accounts payable, accrued expenses and accrued interest	2,429,452	2,436,384
Total adjustments	<u>35,843,910</u>	<u>5,979,512</u>
Net cash provided by operating activities	40,872,249	6,724,899
Cash flows from investing activities		
Cash paid for acquisition, net of cash acquired	-	(63,829,401)
Capital expenditures	(11,162,014)	(4,820,549)
Net cash used in investing activities	<u>(11,162,014)</u>	<u>(68,649,950)</u>
Cash flows from financing activities		
Equity investment by shareholders	-	15,001,466
Bank overdrafts	(3,285,420)	-
Borrowings on revolving line of credit, net	22,350,147	51,000,000
Payments on revolving line of credit, net	(40,880,971)	(37,800,000)
Payments on long-term debt	(380,000)	(380,000)
Retirement of long-term debt	(222,255,572)	-
Payment of deferred financing fees	(9,346,462)	(847,813)
Net proceeds from bond offering	245,738,400	36,900,000
Net cash (used in) provided by financing activities	<u>(8,059,878)</u>	<u>63,873,653</u>
Effect of foreign currency	15,194	(228,359)
Net increase in cash and cash equivalents	<u>21,665,551</u>	<u>1,720,243</u>
Cash and cash equivalents at beginning of period	361,035	883,388
Cash and cash equivalents at end of period	<u>\$22,026,586</u>	<u>\$2,603,631</u>

CELLU TISSUE HOLDINGS, INC.
CONSOLIDATED BUSINESS SEGMENT INFORMATION (Unaudited)

BUSINESS SEGMENTS

	Three Months Ended	
	August 27, 2009	August 28, 2008
NET SALES:		
Tissue	\$ 107,781,026	\$ 103,413,826
Machine-Glazed Tissue	27,925,877	28,718,124
Foam	2,089,747	880,906
Consolidated	<u>\$137,796,650</u>	<u>\$ 133,012,856</u>
INCOME FROM OPERATIONS:		
Tissue	\$ 15,356,475	\$ 6,112,624
Machine-Glazed Tissue	1,326,574	253,267
Foam	603,382	178,657
Segment income from operations	<u>17,286,431</u>	<u>6,544,548</u>
Amortization expense	(1,079,268)	(802,435)
Consolidated	<u>\$16,207,163</u>	<u>\$5,742,113</u>

	Six Months Ended	
	August 27, 2009	August 28, 2008
NET SALES:		
Tissue	\$ 201,248,387	\$ 189,210,876
Machine-Glazed Tissue	51,519,942	57,448,635
Foam	3,956,543	880,906
Consolidated	<u>\$256,724,872</u>	<u>\$ 247,540,417</u>
INCOME FROM OPERATIONS:		
Tissue	\$ 27,711,329	\$ 12,167,787
Machine-Glazed Tissue	2,666,960	732,660
Foam	1,220,299	178,657
Segment income from operations	<u>31,598,588</u>	<u>13,079,104</u>
Amortization expense	(2,135,692)	(802,435)
Consolidated	<u>\$ 29,462,896</u>	<u>\$ 12,276,669</u>

CELLU TISSUE HOLDINGS, INC,
RECONCILIATION OF CONSOLIDATED NET INCOME TO EBITDA
(Unaudited)
(\$ in thousands)

	Three Months Ended	
	August 27, <u>2009</u>	August 28, <u>2008</u>
NET INCOME (LOSS)	\$ 2,717	\$ (247)
Add back:		
Depreciation	6,122	5,868
Amortization	1,079	802
Interest expense	12,331	6,061
Income tax expense (benefit)	<u>1,159</u>	<u>(208)</u>
EBITDA	<u>\$ 23,408</u>	<u>\$ 12,276</u>

	Six Months Ended	
	August 27, <u>2009</u>	August 28, <u>2008</u>
NET INCOME	\$ 5,028	\$ 745
Add back:		
Depreciation	12,050	11,722
Amortization	2,136	802
Interest expense, net	18,838	11,041
Income tax expense	<u>5,256</u>	<u>367</u>
EBITDA	<u>\$ 43,308</u>	<u>\$ 24,677</u>

CELLU TISSUE HOLDINGS, INC.
RECONCILIATION OF CONSOLIDATED EBITDA TO CONSOLIDATED ADJUSTED EBITDA
(Unaudited)
(\$ in thousands)

	Three Months Ended August 27, 2009	Three Months Ended August 28, 2008
EBITDA	\$ 23,408	\$ 12,276
Add back (a) :		
Equipment/facility moves (2)	20	-
Insurance recovery (3)	(346)	-
Stock compensation (4)	191	227
Inventory step-up adjustment (5)	-	283
APF Transition Costs (6)		334
Terminated Acquisition Costs (7)		115
ADJUSTED EBITDA	<u>\$ 23,273</u>	<u>\$ 13,235</u>

	Six Months Ended August 27, 2009	Six Months Ended August 28, 2008
EBITDA	\$ 43,308	\$ 24,677
Add back (a) :		
Mill Fire (1)	250	-
Equipment/facility moves (2)	373	-
Insurance recovery (3)	(346)	-
Stock compensation (4)	422	445
Inventory step-up adjustment (5)	-	284
APF Transition Costs (6)	-	334
Terminated Acquisition Costs (7)	-	233
Mississippi Sales & Use Tax (8)		258
ADJUSTED EBITDA	<u>\$ 44,007</u>	<u>\$ 26,231</u>

(a) Add backs represent adjustments to EBITDA for items which are either noncash in nature or expenses that are considered outside the normal operations of the business as more fully explained below:

- (1) Costs incurred with respect to fire damage at one of our mills.
- (2) Costs incurred to move Hauppauge operations to Central Islip which was completed during the three months ended August 27, 2009.
- (3) Insurance recovery as a result of equipment that was damaged in transit.
- (4) Non cash compensation expense related to the vesting of restricted stock awards and stock option awards.
- (5) Inventory step up adjustment related to purchase accounting for APF acquisition.
- (6) Transition costs related to the APF acquisition.
- (7) Deal costs for acquisitions that were ultimately not completed.
- (8) Sales and use tax assessment based on audit of prior periods.