UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re: SMURFIT-STONE CONTAINER CORPORATION, et al., Debtors[1].	Chapter 11 Case No. 09-10235-BLS Jointly Administered **DECLARATION OF WILLIAM LEVIN**

I, WILLIAM LEVIN, declare as follows:

1. I am the managing director of The Levin Group, L.P. ("TLG"), strategic and financial advisor to the above-captioned debtors and debtors-in-possession (collectively, the "Debtors" or the "Company").

2. I submit this Rebuttal Declaration (the "Declaration") in Support of the Joint Plan of Reorganization for Smurfit-Stone Container Corporation and Its Debtor Subsidiaries and Plan of Compromise and Arrangement for Smurfit-Stone Canada Inc. and Affiliated Canadian Debtors, dated January 29, 2010 (as the same may be amended or modified, the "Plan") [Docket No.

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Smurfit-Stone Container Corporation (1401), Smurfit-Stone Container Enterprises, Inc. (1256), Calpine Corrugated, LLC (0470), Cameo Container Corporation (5701), Lot 24D Redevelopment Corporation (6747), Atlanta & Saint Andrews Bay Railway Company (0093), Stone International Services Corporation (9630), Stone Global, Inc. (0806), Stone Connecticut Paperboard Properties, Inc. (803 8), Smurfit-Stone Puerto Rico, Inc. (5984), Smurfit Newsprint Corporation (1650), SLP Finance I, Inc. (8169), SLP Finance II, Inc. (3935), SMBI Inc. (2567), Smurfit-Stone Container Canada Inc. (3988), Stone Container Finance Company of Canada II (1587), 3083527 Nova Scotia Company (8836), MBI Limited/Limitée (6565), Smurfit-MBI (1869), 639647 British Columbia Ltd. (7733), B.C. Shipper Supplies Ltd. (7418), Specialty Containers Inc. (6564), SLP Finance General Partnership (TBD), Francobec Company (7735), and 605681 N.B. Inc. (1898). The Debtors' corporate headquarters are located at, and the mailing address for each Debtor is, 150 North Michigan Avenue, Chicago, Illinois 60601.

4442, as amended by Docket No. 4500].[2] Unless otherwise specified, all capitalized terms not expressly defined herein shall have the meaning ascribed to such terms in the Plan.

3. I am authorized to make this Declaration on the Debtors' behalf. Except as otherwise indicated, all of the facts set forth in this Declaration are based on my personal knowledge, my knowledge of the Debtors' operations and financial condition, or upon information supplied to me by other members of the Debtors' management team and/or the professionals retained by the Debtors. If called to testify, I could and would testify competently as to the facts set forth herein.

EQUITY OBJECTORS' EXPERTS' REPORTS

4. I have reviewed the reports of GLC Advisors & Co. and Sanabe & Associates, LLC ("GLC/Sanabe"), retained by Willkie Farr & Gallagher, LLP; and Stephen R. Read ("Read"), retained by Kasowitz Benson, Torres & Friedman LLP (together, the "Equity Objectors' Experts" or "Experts").

5. The Equity Objectors' Experts adopt the Debtors' EBITDA projections as the base of their calculations, to which they make itemized adjustments (seven by GLC/Sanabe, two by Read).[3]

6. In adopting the Debtors' base projections, the Equity Objectors' Experts accept the methodology of the model (the "Model") used by the Debtors to create the projections, subject only to the limited adjustments discussed below.

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[2] On March 19, 2010, the Debtors filed with the Bankruptcy Court the Plan Supplement (as amended, modified or supplemented from time to time, the "Plan Supplement") [Docket No. 6044] which consisted of the following exhibits to the Plan: (1) Amended and Restated By-Laws of Reorganized SSCC; (2) Amended and Restated Certificate of Incorporation of Reorganized SSCC; (3) Management Incentive Plans; (4) Directors and Officers and Creditor Representative of Reorganized SSCC; (5) Directors and Officers of Reorganized Debtors Other than Reorganized SSCC; (6) Asset Purchase Agreement (Canadian Asset Sale); (7) Canadian Newco Partnership Agreement; (8) Canadian Holdco Articles of Association; (9) Canadian Holdco Memorandum of Association; (10) List of Previously Assumed Unexpired Leases to be Assigned to Canadian Newco in Connection with the Canadian Asset Sale; (11) List of Executory Contracts and Unexpired Leases to be Assumed and Assigned to Canadian Newco in Connection with the Canadian Asset Sale; (12) Employee Benefit Plans; (13) Employment and Retirement Benefit Agreements; (14) Restructuring Transactions; and (15) Exit Facility Documentation.

[3] GLC/Sanabe Report at 39; Read Report at 8, 26-29.

7. The Equity Objectors' Experts do not dispute that the Model functions properly and none of their potential adjustments affect, or are alleged to affect, the reliability of the Model, including tie outs to historical results and the accuracy of forecast results based on assumptions applied by the Debtors. The Equity Objectors' Experts accept as valid the EBITDA forecasts for the Reclamation Division and Corporate Division in their entirety.

8. The aggregate effect of the Experts' adjustments is an increase in 2014E EBITDA of $321 million in the GLC/Sanabe report and $291 million in the Read report. Several of the adjustments are favorable to confirmation of the Plan (by reducing forecasted EBITDA) or are immaterial to the Debtors' valuation. There are only five items among the Equity Objectors' Experts' adjustments that produce a material increase in the Debtors' forecasted EBITDA (four for GLC/Sanabe, one for Read).

9. The Equity Objectors' Experts conflict on the specific items requiring upward adjustment. The most notable conflict relates to containerboard pricing. GLC/Sanabe accepts the Debtors' projections for containerboard pricing to within an average of $0.72/ton. Read, in contrast, claims that there will be substantial and permanent increases in containerboard prices ranging up to $65/ton. A similar conflict appears in the Experts' positions on packaging pricing. GLC/Sanabe asserts that the Debtors by 2014 will realize an incremental $123 million in Packaging EBTIDA unrelated to changes in containerboard mill pricing. Read, in contrast, accepts that packaging prices, with lags, move exclusively in relation to linerboard price changes. On production and sales volume, Read accepts all of the Debtors' projections, whereas GLC/Sanabe asserts that the Debtors will significantly increase mill production for export sales. Finally, with respect to costs, GLC/Sanabe assumes that the Debtors' fixed costs at mills and labor costs in Packaging will be lower than projected, whereas Read accepts all of the Debtors' cost projections (with the exception of higher

average OCC prices, which is favorable to Debtors' position). In sum, the Experts' internal disagreement and conflict on the specific items requiring adjustment highlight the arbitrary nature of their objections to Debtors' plan.

GLC/Sanabe Report

10. In its description of "Projections Methodology," GLC/Sanabe explains that "[g]iven the level of detail provided by the Debtors," it "replicated the Debtors' Revised Projections for the Segments [defined therein as "the mills operations and packaging division"] and then "adjusted the Segments' results for the assumptions."[4] GLC/Sanabe confirms its adoption of Debtors' base EBITDA in the chart it provides on page 38, which adds net incremental EBITDA to the "Management Case" EBITDA.[5]

11. GLC/Sanabe tries to justify its aggregate adjustments to the Debtors' projections by claiming that the projections were based on 2009, which was "not an appropriate base year from which to forecast."[6] GLC/Sanabe misunderstands, or simply misstates, the basis for the Debtors' projections. The projections for 2011-2014 were built from the calendar year 2010 monthly forecast created by the Debtors. The 2010 forecast was not based on 2009 results, as evidenced by the $152 million, or 42%, increase in recurring EBITDA for 2010 versus 2009.

Adjustments.

12. GLC/Sanabe makes a total of seven adjustments to the Debtors' projections. Three of those adjustments reduce the Debtors' average EBITDA and account for at most a 5% upward adjustment in one year. These items are: (1) mill price, (2) packaging volume, and (3) packaging fixed costs ("Immaterial Adjustments"). The remaining four adjustments account for 95% to 206% of GLC/Sanabe's total incremental EBITDA (the years for which the adjustments exceed

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[4] GLC/Sanabe Report at 39.
[5] *Id.*
[6] *Id.* at 15; *see* also Mishkin Decl. at ¶ 13.

100% are due to the negative EBITDA of the Immaterial Adjustments). These items are: (1) mill volume, (2) mill fixed costs, (3) packaging price and (4) packaging labor costs ("Material Adjustments"). See Exhibit 1.

13. Immaterial Adjustments. The three Immaterial Adjustments reduce the Debtors' forecasted EBITDA every year, excepting 2014, by $15 million to $45 million. The Immaterial Adjustments in the aggregate for 2010-2104 *reduce* Debtors' forecasted EBITDA by an average of $15 million annually. Even taken individually, the three items are immaterial to the Debtors' valuation**.** **Packaging Volume:** GLC/Sanabe believes that the Debtors' packaging volume is too aggressive in every year of the forecast. Reducing the Debtors' packaging volume to GLC/Sanabe's levels results in a *lower* EBITDA. **Packaging Fixed Costs:** GLC/Sanabe disagrees with the Debtors' projections of packaging fixed costs. GLC/Sanabe's "corrected" projection of packaging fixed costs results in an immaterial $1 million average increase in annual incremental EBITDA. **Mill Price:** GLC/Sanabe adjusts Debtors' mill pricing upward by an immaterial variance. Applied to the Debtors' production of containerboard during the forecast period of 6.2 to 6.4 million tons, the GLC/Sanabe price variance amounts to an average of only $.72/ton more than the Debtors' containerboard price forecast. Given the average price of containerboard over the forecast period of $543/ton, the variance amounts to approximately 1/10 of 1%. The GLC/Sanabe adjustment to containerboard pricing would yield an average of less than $5 million per year in incremental EBITDA. The Immaterial Adjustments are properly ignored as irrelevant to the Debtors' valuation.

14. Material Adjustments. As noted, the four Material Adjustments account for at least 95%, and as much as 206%, of GLC/Sanabe's adjustment to Debtors' EBITDA forecast for each year from 2010-2014.

15. *Item 1 of 4: Mill Volume.* GLC/Sanabe upwardly adjusts the Debtors' projections of mill volume. For 2010-2014, GLC/Sanabe projects a 592,000 ton increase in mill production (a 2.3% compound annual growth rate, "CAGR"), whereas the Debtors project a 205,000 ton increase (a 0.8% CAGR). Thus, GLC/Sanabe projects a net 387,000 ton increase in production over the Debtors' plan.

16. No incremental production increase for 387,000 has been validated by Debtors, whose Plan already assumes a 205,000 ton increase.[7] No such increase has been incorporated in the operational, strategic or forecast plans of Debtors. GLC/Sanabe instead impermissibly relies on the illustrative "ideas" of two mill employees formulated prior to the arrival of Mike Exner, the Debtors' recently hired Senior Vice-President of Mill Manufacturing, and prior to Exner's approval of these "ideas."[8]

17. Due to demand constraints in the North American containerboard market, GLC/Sanabe projects all 387,000 tons will be sold into the export market at the Debtors' projected export containerboard pricing. GLC/Sanabe further assumes, contrary to fact, that the 387,000 tons can be produced at no incremental capital cost to the Debtors.

18. Expanding mill capacity to increase exports contradicts the Debtors' express strategic decision to reduce total exposure to export markets. The Debtors' plan assumes a 342,000 ton reduction in sales to export markets, including the virtual elimination of all low margin tons sold to the Middle East, Asia and Africa.[9] The Debtors' twin strategy - a decisive reduction in total export sales and the maximizing of core Latin America sales - directly reflects the low prices and inadequate margins obtained in the overall export market. Neither Debtors nor any industry

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[7] GLC/Sanabe Report at 43.
[8] Klinger Dep. 94:1-10 (Mar. 25, 2010).
[9] Trial Ex. 8, UCC Presentation to Unsecured Creditors, p. 33.

competitor would in reality invest capital to expand mill capacity restricted to low margin export markets. By GLC/Sanabe's logic, the Debtors ought never to have closed either their Ontonagon or Missoula mills, and should have instead sold their output to export markets.

19. Even if the Debtors were able to produce and sell the additional 387,000 tons in the export market, GLC/Sanabe dramatically overstates the EBITDA impact of such sales. GLC/Sanabe asserts that the incremental EBITDA due to the increase in export volume would range from $57 million in 2012 to $92 million in 2014. The $92 million EBITDA gain on 387,000 incremental tons equates to $238 of EBITDA per incremental export ton ("Incremental Export EBITDA/ton").[10]

20. In fact, the Debtors' correct Incremental Export EBITDA/ton would more reasonably approximate $28/ton. See Exhibit 2.

21. For 2010-2014, Debtors' project an average selling price of $543/ton for liner, medium and white top sales. The associated cost of variable production averages $314/ton. Subtracting variable costs (i.e., excluding fixed costs) from the selling price produces the $229/ton average converting margin earned by the Debtors for all containerboard products (liner, medium and white top) sold in all channels (internal, exchange, domestic and export) for the forecast period 2010-2014.

22. It is impossible, economically and factually, that the incremental margin to be earned from exports, ($238/ton in 2014 according to GLC/Sanabe), could approximate, and in fact exceed, the $229/ton converting margin earned by the Debtors' from all channels, including higher priced internal, exchange and domestic sales. As even GLC/Sanabe concedes, the average

[10] GLC/Sanaba Report at 38.

converting margin must be reduced due to the discount for export pricing.[11] For the forecast period, the average export discount to Latin America is $92/ton, which lies within the historical range accepted as reasonable by GLC/Sanabe for the years 2007 and 2008.[12] The maximum feasible export margin to the Debtors' best market, Latin America, therefore falls to $137/ton.

23. But Debtors' will not be able to sell 387,000 incremental tons to Latin America at $137/ton incremental margins. The $92/ton Latin American discount represents Debtors' price to their best export market. The Debtors' plan already incorporates an incremental 94,000 ton increase in sales to Latin America market, to a peak of 546,000 tons in 2011. When the Debtors in 2008 and 2009 had to sell 947,000 and 799,000 tons, respectively, in the export market, Latin America, despite its higher prices, could only accommodate 420,000 to 450,000 tons, forcing the Debtors' to sell 295,000 to 420,000 tons to the Middle East and Asia at a weighted average price discount approximating $103/ton. Likewise, the Debtors could not sell the incremental volume in the European market, which the Company restricts to limited quantities of white top. The incremental volume posited by GLC/Sanabe would therefore have to be sold to the lower-priced Middle East, Africa and Asia markets, as confirmed by the Debtors' experience in 2008 and 2009.

24. GLC/Sanabe implicitly acknowledges that the 387,000 in incremental exports will not go to Latin America by citing the growth in the Asia market.[13] Using the Debtors' 2008 and 2009 data, the actual split in non-Latin American exports was approximately 75% to the Middle East and 25% to Asia. The Middle East sells at an even greater historical and forecast discount of $135/ton versus $82 for Asia. For conservatism reasons alone, a 50%-50% split is assumed between Asia and the Middle East, yielding a $109/ton export discount.

[11] Mishkin Decl. at ¶ 15.
[12] GLC/Sanabe Rep. at 43.
[13] Mishkin Decl. at ¶ 15.

25. The $109/ton discount for sales to Asia and the Middle East reduces the EBITDA/ton for incremental exports from $137/ton to $28/ton, which is properly compared to the impossible GLC/Sanabe calculation of $238/ton. Applied to 387,000 tons, the actual incremental EBITDA potential for incremental export tons approximates $10.8 million pre-tax, or $6.6 million after-tax, assuming a 39% tax rate. In sum, GLC/Sanabe overstates the potential incremental EBITDA from exports by almost 90%, or more than $81 million in 2014.

26. To compound matters, GLC/Sanabe assumes no incremental capital expenditures are required to produce the 387,000 incremental tons. GLC/Sanabe fails to cite, or even discuss, a memorandum that details a required investment of $123 million to complete the mill improvements discussed in their report.[14] Spending $123 million to increase mill capacity for sale into low margin export markets – as GLC/Sanabe proposes – would unequivocally harm shareholder value. The project would return a fraction of the Debtors' weighted average cost of capital, even as calculated by GLC/Sanabe at 9.6% to 11.6%. It would have an unacceptable after-tax payback on invested capital in excess of 18 years. No responsible management team or Board of Directors would approve of the GLC/Sanabe plan to increase mill volume in order to sell the resulting output into the export market.

27. *Item 2 of 4: Mill Fixed Costs.* GLC/Sanabe assumes that fixed costs for the Debtors' mills will be lower than projected by applying a 1.5% CAGR instead of the Debtors' 2.9% CAGR, resulting in $20 million to $58 million in incremental EBITDA for 2010-2014.

28. According to GLC/Sanabe, the 1.5% CAGR is reasonable because the Debtors' historical CAGR for fixed costs was an even lower 1.1%. That historical comparison is arbitrary and incorrect. The historical CAGR for the Debtors' "continuing 12 mills" ranges from

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[14] Exhibit 7. Compare to GLC/Sanabe Report at 43 ("GLCA/Sanabe has assumed that the increased capacity investments can be accomplished within the $210 million of annual capital expenditures. . .").

1.6% to 4.2%, depending on the period chosen and the baseline financial comparisons (i.e., with or without co-generation contribution and other income/expenses). See Exhibit 3.

29. Further, GLC/Sanabe's incremental EBITDA is based on the incorrect assumption that the fixed costs of the twelve "continuing mills" in the forecast are directly comparable to the reconstructed fixed costs results for these twelve "continuing mills" for the period 2004-2009.[15] This is another defective comparison. The Debtors benchmarked and reduced headcount across their mill system over this period and now operate at competitive levels versus the industry. Additionally, as analyzed by the Committee's Expert and supported by common sense, the Debtors' aging mills will experience rising fixed costs.

30. More specifically, GLC/Sanabe fails to acknowledge that the Debtors' forecast increases in fixed costs by specific line items. See Exhibit 4. Rentals and leases are projected to experience zero inflation, to which GLC/Sanabe can offer no objection. The Debtors use RISI's forecast for the change in producer prices, updated as recently as February, 2010, to forecast cost increases for general supplies, maintenance, plant expenses and environmental expenses. GLC/Sanabe offers no rationale as to why RISI is not a reasonable basis for estimating cost inflation of these four specific items within Mill fixed costs. Even GLC/Sanabe's vague assertion that capital spending will produce productivity gains in these four items lacks factual foundation and is contrary to sense given that these items account for less than 14% of mill costs. The return on the non-maintenance, non-allocated capital dollars that could be applied to these items is immaterial to cost control, or valuation and entirely speculative.

31. <u>Mill Labor Costs</u>. GLC/Sanabe asserts a 1.5% growth rate for the Debtors' hourly and salaried labor, including fringe benefits, which is wholly unsupported in the historical

[15] GLC/Sanabe Report at 30.

record. The historic rates of change for labor costs for "continuing mills" varies from (6.1%) to positive 5.4%. In contrast to GLC/Sanabe, the Debtors carefully analyzed the expected inflation rate for *hourly labor* (based on known contracts), *exempt and non-exempt salaried labor* (for targeted merit increases) and *fringe benefits* (including insurance and other compensation costs), of a largely unionized labor force (i.e., approximating 80% of the total mill division employees).

32. *Item 3 of 4: Packaging Price.* GLC/Sanabe adjusts the Debtors' projections upward based on the demonstrably incorrect hypothesis that the Debtors' projections incorporate compressed EBITDA margins. As its sole evidence, GLC/Sanabe purports to measure the Debtors' average box price, calculated in tons, versus the "Linerboard Transaction Price," presumably for the single grade of 42lb linerboard. [16] Based on this constructed data series, GLC/Sanabe increases the Debtors' Packaging Division EBITDA by $123 million in 2014.

33. The GLC/Sanabe packaging price increase occurs without any related linerboard increase in the Mill division. (See paragraph 13, detailing GLC/Sanabe's Immaterial Adjustments with the Debtors on mill pricing in the forecast 2010-2014). This assumption is in direct conflict with Read's view that packaging prices follow linerboard prices. It is in direct conflict with the Debtors' view, as expressed in detail in the Model, that packaging price changes are directly linked to changes in mill pricing. It is in direct conflict with the terms of the Debtors' national contracts, wherein packaging prices are tied to changes in posted RISI pricing for linerboard. It is in direct conflict with the Debtors' view that aggregate prices, with lags, maintain rough equilibrium with cost changes. It is in direct conflict with the Debtors' behavior that its Packaging sales force can obtain general increases in prices only in relation to increases in linerboard prices. It is direct conflict with the frequently observed process by which RISI posts changes in linerboard prices and industry competitors and customers negotiate the extent, if any, that the posted rise leads to changes in

[16] GLC/Sanabe Report at 42.

packaging pricing. In place of these established facts and causal mechanisms, GLC/Sanabe incorrectly asserts that the Debtors can, by fiat, unilaterally raise prices on some 70 billion square feet of boxes, without any related rise in liner prices, sufficient to generate an incremental $123 million in EBITDA by 2014.

34. Beyond the flawed assumption that box prices can rise independent of linerboard prices, GLC/Sanabe is simply incorrect in its hypothesis that the Debtors' have forecast a compression in margins. The best single measure of profitability for an integrated paper and box manufacturer like the Debtors is EBITDA/ton of containerboard ("EBITDA/ton"), which accurately measures profitability even when applied, as here, to a changing historical footprint (8 closed mills, 1 sold mill, 47 closed box plants and a sharp reduction in total headcount). EBITDA/ton measures the aggregate results of the Debtors' operations, thereby eliminating GLC/Sanabe's argument that the Debtors' projections for the Packaging division EBITDA are skewed by transfer pricing. Transfer pricing can affect the allocation of EBITDA between the Mill and Packaging division. Transfer pricing categorically cannot increase, or decrease, the aggregate profitability of the Debtor.

35. The Debtors' projections show a sharp rise in EBITDA/ton, from an average of $68/ton for the years 2005-2009 to $88/ton for the years 2010-2014. See Exhibit 5. The 29% rise in per ton profits unambiguously rebuts GLC/Sanabe's hypothesis that the Debtors' projections compress margins compared to historical performance.

36. By adding EBITDA permanently, and for valuation purposes in perpetuity, GLC/Sanabe violates Mr. Mishkin's own declaration that in his "experience" "on a very broad scale prices and costs move together."[17] The Debtors, by contrast, employ a comprehensive approach to pricing that assumes aggregate prices, with lags, maintain an equilibrium with costs, provided no excess supply impacts pricing. The Debtors' approach, especially as applied to perpetuity valuations,

[17] Mishkin Decl. at ¶ 20.

is consistent with a cyclical, highly competitive commodity product. GLC/Sanabe's unilateral, permanent, and material $123 million increase in price versus cost is not.

37. *Item 4 of 4: Packaging Labor*. GLC/Sanabe asserts that the Debtors' labor costs in the Packaging Division will grow at only 1.5%, which will provide incremental EBITDA rising to $32 million by 2014.[18] GLC/Sanabe provides zero evidence for a historic 1.5% labor inflation rate in the Packaging Division. Instead, GLC/Sanabe arbitrarily and incorrectly applies to Packaging Labor the 1.5% CAGR rate it mistakenly attributes to the Debtors' Mill division.

38. The Debtors, by contrast, undertook a specific analysis of labor costs. See Exhibit 6. Unacknowledged by GLC/Sanabe, Debtor assumes that a 3.3% increase in absolute dollar costs for packaging labor will be reduced by productivity gains to a 2.4% CAGR, based on MSF sold. The Debtors forecast a distinctly lower net increase in packaging labor costs (2.4% CAGR) versus mill labor costs (3.1% CAGR). Finally, the Debtors applied a lower rate for direct labor, indirect labor and overtime premium (2.4% CAGR) versus hourly fringes (4.5% CAGR), which highlights the specificity of Debtors' forecasting process.

<u>The Debtors' Valuation Excluding the GLC/Sanabe Adjustments</u>.

39. GLC/Sanabe presents no valid arguments to justify its adjustments of the Debtors' base EBITDA, which results in $321 million incremental EBITDA in 2014 as compared to the Debtors' forecast (equal to a 48% increase). When TLG excluded the unsupported GLC/Sanabe incremental EBITDA adjustments and applied GLC/Sanabe's own Discounted Cash Flow methodology, the GLC/Sanabe valuation was reduced by $1.6 to $1.8 billion.

<u>Read Report</u>

[18] GLC/Sanabe Report at 37-38.

40. Read uses the same methodology as GLC/Sanabe: he adopts the Debtors' projections as his base and then adjusts them.[19] Notably, Read chooses to employ different and contradictory adjustments than did GLC/Sanabe.

Adjustments.

41. Read limits his adjustments to only two items, containerboard pricing and mill OCC costs. He otherwise expressly accepts the Debtors' volume, virgin fiber, energy, labor, freight and chemical assumptions and results.[20]

42. OCC Adjustment Favorable to Debtor. Read asserts that in each year 2011-2014, OCC costs will be higher than the Debtors' forecast. Read's OCC adjustment actually *reduces* Debtors' EBITDA in every year 2011-2014.

43. Price Adjustment. Read argues that the Debtors' Mill Pricing should be higher by $9/ton to $65/ton for the forecast period from 2010-2014. He bases this argument on the median of six Wall Street Analysts' views of pricing.[21]

44. As described above, the Model forecasts prices by maintaining a rough equilibrium between aggregate changes in prices, with lags, and aggregate changes in costs. Read accepts all of the Debtors' forecasted costs (except OCC), from which the Debtors derive their price forecasts. Thus, Read's incremental price increase is nothing more than an assertion that the Debtors' can impose permanent increases in price that exceed increases in costs. Read offers no support for this assertion, which lacks any foundation in the highly competitive containerboard and packaging industry and which the Debtors' analysis expressly contradicts.

45. Read therefore does not and cannot justify his upward adjustments to the Debtors' EBITDA.

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[19] Read Report at 8.
[20] Read Report at 16-29.
[21] Read Decl. at ¶ 26.

Experts' Adjustments Grossly Unreasonable in the Aggregate

46. The Equity Objectors' Experts adjustments in the aggregate are grossly unreasonable when compared to Debtors' historical performance. See Exhibit 5. A comparison of the five year forecast period, 2010-2014, with the historical five year period, 2005-2009, shows an unprecedented, manifestly unjustified jump in EBITDA/ton profitability. As previously noted, EBITDA/ton correctly adjusts for Debtors' change in footprint. For the two periods, GLC/Sanabe forecasts a 59% increase in the Debtors' average EBITDA profit on every ton produced, from $68/ton to $108/ton (72% increase for Read). Worse yet, GLC/Sanabe forecasts that Debtors' 2014 profits will exceed the Debtors' historical average by 99%, or $135/ton versus $68/ton (103% for Read). In a commodity business characterized by intense competition from highly capable alternative suppliers, such an increase in profit assumptions versus historical performance lacks all justification. The incremental adjustments are especially unreasonable given the 29% average increase in EBITDA/ton profit margins incorporated in Debtors' plan ($88/ton versus $68/ton).

47. Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: April 30, 2010
New York, New York

William Levin