UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re: SMURFIT-STONE CONTAINER CORPORATION, et al., Debtors.	Chapter 11 Case No. 09-10235 (BLS) Jointly Administered **DECLARATION OF JONATHAN I. MISHKIN**

I, JONATHAN I . MISHKIN, declare as follows:

1. I previously testified regarding my analysis of conclusions offered by Rodney Fisher, who testified as an expert on behalf of the Official Committee of Unsecured Creditors (the "UCC"). Specifically, Mr. Fisher opined that the discount between the benchmark linerboard transaction price published by Pulp and Paper Week (the "RISI Linerboard Price") and the lower average price at which Smurfit-Stone Container Corporation ("SSCC") sold its linerboard (the "Discount") would increase as industry performance improved between 2010 and 2014. Mr. Fisher testified that his opinion was based on a historical comparison that included both historical SSCC domestic third-party sales price data, as well as other, unspecified sources of data contained in his proprietary materials. He further testified that the SSCC data he used in drawing his conclusion was solely data for the domestic, third-party sales channel, and not export, internal transfer, or exchange pricing data.

2. I have reviewed the SSCC data that Mr. Fisher used in drawing his conclusion, as well as the historical price data produced for the first time by the Debtors over the past weekend. My conclusion, as I testified earlier, is that Mr. Fisher used pricing data for all channels -- domestic third-party sales, export sales, internal transfers, and exchanges -- rather than just the domestic third-party pricing data. Mr. Fisher's, conclusion is unsupported by the

Debtors' data and, as a result, erroneous. His conclusion concerning the Debtors' projected Discount is skewed because the internal transfer price is an arbitrary price determined by the Company, not the market, and is typically lower than the actual price at which goods are sold to third parties in the domestic market . Inclusion of internal transfer prices therefore artificially increases the Discount between the RISI Linerboard Price and the actual price at which goods are sold to the third parties in the domestic market.

3. The flaws in Mr. Fisher's analysis cause a material undervaluation of the Debtors. In our analysis, we provide for a $45 per ton decrease in the Discount as a result of rising linerboard prices and stronger demand. (Report at 41.) That decrease translates into $56 million of incremental EBITDA in 2014. Mr. Fisher has challenged our inclusion of that incremental EBITDA based on his theory that the Discount will grow as linerboard prices rise. As I show below, Mr. Fisher's analysis is premised on incorrect assumptions about the data he uses, and is invalid.

Mr. Fisher's Analysis

4. In order to understand Mr. Fisher's analysis, I replicated it. The UCC produced two worksheets from Microsoft Excel containing Mr. Fisher's underlying data and calculations. Those worksheets have been annexed hereto as Exhibits 1 (UCC0276475-95) and 2 (UCC0275890-95), respectively.

5. The RISI Linerboard Price utilized as the benchmark by Mr. Fisher is listed on Exhibit 1, at UCC0276475-76, line 46, and recreated here as Table 1:

Table 1 -- RISI Linerboard Price

Linerboard	2004	2005	2006	2007	2008	2009
RISI	443	444	518	547	599	575

6. Mr. Fisher testified that he extracted the prices at which SSCC's domestic third-party linerboard sales actually occurred from 2004-2009 for each of the five mills that produce linerboard from the financial model created by the Levin Group (the "Levin Model"). Those prices are set forth at in Exhibit 1 at UCC0276475 and UCC0276479, lines 47-52, and recreated below as Table 2:

Table 2 -- Fisher Actual Transaction Price Realized For Domestic 3rd Party Sales

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	406	410	486	471	509	445
Florence LB	423	430	499	493	409	419
Hodge LB	433	439	509	483	529	474
Hopewell	403	407	484	473	498	454
Panama City	413	425	488	468	534	470
Smurfit Straight Average	416	422	493	478	496	452

7. Using the price data in Tables 1 and 2, Mr. Fisher calculated that each mill sold its linerboard at a certain percentage discount to the RISI Linerboard Price, and set forth those percentage discounts for each mill, in each year, in Exhibit 2 at UCC0278590-91, lines 14-19. Those percentage discounts are reproduced in Table 3:

Table 3 -- Fisher % Discount From RISI Linerboard Price Realized By Mills

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	8.4%	7.7%	6.2%	13.9%	15.0%	22.6%
Florence LB	4.5%	3.2%	3.7%	9.9%	31.7%	27.1%
Hodge LB	2.3%	1.1%	1.7%	11.7%	11.7%	17.6%

Hopewell	9.0%	8.3%	6.6%	13.5%	16.9%	21.0%
Panama City	6.8%	4.3%	5.8%	14.4%	10.9%	18.3%
Smurfit Straight Average	6.2%	4.9%	4.8%	12.7%	17.2%	21.3%

8. Mr. Fisher then calculated a weighted average of the discount for SSCC overall in each year from 2004 to 2009 based upon the discounts at each of the five mills. It is not clear where Mr. Fisher obtained the data that produced the percentage weights that he employed, but that data is set forth in Exhibit 2 at UCC0275890, lines 23-28, and is reproduced below in Table 4:

Table 4 -- Fisher Mill Weighting

Mill	**TPY from FL**	**%**
Fern LB	816,900	29%
Florence LB	682,500	25%
Hodge LB	509,780	18%
Hopewell	443,750	16%
Panama City	332,500	12%
Total	2,785,430	100

9. Mr. Fisher then applied the percentage weights listed in Table 4 to the discounts to the RISI Linerboard Price in Table 3, and produced a weighted average discount for SSCC's linerboard price that is set forth in Exhibit 2 at UCC0275890-91, lines 31-36, and reproduced in Table 5, below:

Table 5 -- Fisher Calculation of Smurfit Weighted Average Discount

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	2.4%	2.2%	1.8%	4.1%	4.4%	6.6%
Florence LB	1.1%	0.8%	0.9%	2.4%	7.8%	6.6%
Hodge LB	0.4%	0.2%	0.3%	2.1%	2.1%	3.2%
Hopewell	1.4%	1.3%	1.0%	2.2%	2.7%	3.4%
Panama City	0.8%	0.5%	0.7%	1.7%	1.3%	2.2%
Smurfit Weighted Average	6.2%	5.1%	4.8%	12.5%	18.3%	22.0%

10. Mr. Fisher then extracted the year-over-year change in the SSCC weighted average discount and plotted those changes against the year-over-year changes in the RISI Linerboard Price as 5 of the 14 data points shown in the graph on Exhibit 4 to his report (annexed hereto as Exhibit 3). The data points are set forth on Table 6:

Table 6 -- SSCC Data Points From Exhibit 4 to Fisher Report

Linerboard	**2004 to 2005**	**2005 to 2006**	**2006 to 2007**	**2007 to 2008**	**2008 to 2009**
% Discount Change	-1.1%	-0.3%	7.7%	5.8%	3.7%
Price Change	1	74	29	52	-24

Replication of Mr. Fisher's Analysis

11. Mr. Fisher concluded from the data reproduced above that the Discount will rise as linerboard prices rise during an industry recovery. As set forth in my Declaration, dated April 20, 2010, as well as my prior testimony, I disagree with his conclusion. In particular, I believe Mr. Fisher used incorrect data to draw his conclusions. While Mr. Fisher has testified he believes that the data reproduced in Table 2, above, represents pricing data from only domestic third-party sales of linerboard, in my opinion, he is incorrect, and the pricing data in Table 2 is pricing data for all channels -- domestic third-party, export, internal transfer, and exchange. The data in Table 2 provides the basis for Mr. Fisher's conclusion that the Discount will rise as linerboard prices rise, and his mistake regarding that data is fatal to his analysis.

12. In order to formulate my opinion, I replicated Mr. Fisher's analysis. His data in the tables above can only be replicated using pricing data for all four channels, not just domestic third-party sales. My analysis, described in detail below, is annexed hereto as Exhibit 4.

13. First, I tabulated the Total Net Revenue realized from each of the mills selected by Fisher over the same time period for all channels (domestic, export, internal transfer, and exchange), which is set forth in Table 7:

Table 7 -- Mishkin Total Net Annual Revenue For Linerboard, All Channels ($000s)

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	317,637	330,028	413,400	409,945	434,224	378,557
Florence LB	289,162	280,904	336,263	325,592	322,042	275,424
Hodge LB	171,911	186,052	227,861	226,174	256,721	230,319
Hopewell	175,417	168,870	212,672	207,801	212,606	198,124

Panama City	137,950	127,187	166,731	158,604	159,047	147,537
Total	1,092,077	1,093,041	1,356,928	1,328,116	1,384,640	1,229,962

The source document for Total Net Revenue is annexed hereto as Exhibit 5.

14. Next, I tabulated the total tons of linerboard sold annually from each mill over the same period, for all channels (domestic third-party, export, internal transfer, and exchange), which is set forth in Table 8:

Table 8 -- Mishkin Total Tons Of Linerboard Sold, All Channels (000s)

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	783	805	851	871	853	851
Florence LB	686	653	674	661	633	657
Hodge LB	397	424	447	468	485	486
Hopewell	435	415	439	439	427	436
Panama City	334	299	342	339	298	314
Total	2,634	2,596	2,754	2,779	2,696	2,744

The data in Table 8 was extracted from Exhibit 5.

15. I then divided the Total Net Revenue by the Tons Sold, and determined the price per ton realized at each mill for all channels (domestic third-party, export, internal transfer, and exchange) by SSCC. The results, set forth in Table 9, below, are virtually identical to Mr. Fisher's data in Table 2, with two minor exceptions discussed below. Once again, it is worth noting that using source data for all channels, I recreated price data that Mr. Fisher believes is only domestic third-party sales.

Table 9 -- Mishkin Actual Transaction Price Realized For Linerboard, All Channels

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	406	410	486	471	509	445
Florence LB	422	430	499	493	509 (409)	419
Hodge LB	433	439	509	483	529	474
Hopewell	403	407	484	473	498	454
Panama City	413	425	488	468	534	470
Smurfit Straight Average	415	422	493	478	496	452

For ease of reference, I reproduce Table 2:

Table 2 -- Fisher Actual Transaction Price Realized For Domestic 3rd Party Sales

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	406	410	486	471	509	445
Florence LB	423	430	499	493	409	419
Hodge LB	433	439	509	483	529	474
Hopewell	403	407	484	473	498	454
Panama City	413	425	488	468	534	470
Smurfit Straight Average	416	422	493	478	496	452

16. Only two differences exist between Table 9, my data, and Table 2, Mr. Fisher's data. First, there is a $1 difference in the linerboard price realized by the Florence mill in 2004. That difference is attributable to rounding error, but it creates a $1 disparity between the Smurfit Straight Average in Tables 2 and 9. Second, Mr. Fisher incorrectly lists the price realized at Florence in 2008 as $409, when the actual derived price is $509, based on our

calculations from Tables 7 and 8. We believe that Mr. Fisher, who testified that he copied these figures during a viewing of the Levin Model and then input them into his worksheets, made a transcription error. For purposes of replicating his analysis, we have used $409 for Florence in 2008, as he did.

17. Using the data in Table 9 (with the exception of the $409 price realization per ton at Florence in 2008), I then calculated the percentage discount realized by Smurfit for all channels for linerboard. This duplicated Mr. Fisher's findings set forth in Table 3, which he testified was derived exclusively from domestic third-party sales. As shown in Table 10 below, my results were once again identical to Mr. Fisher's, shown in Table 3.

Table 10 -- Mishkin % Linerboard Discount From RISI Price Realized By Mills, All Channels

Linerboard	2004	2005	2006	2007	2008	2009
Fern LB	8.4%	7.7%	6.2%	13.9%	15.0%	22.6%
Florence LB	4.7%	3.2%	3.7%	9.9%	31.7%	27.1%
Hodge LB	2.3%	1.1%	1.7%	11.7%	11.7%	17.6%
Hopewell	9.0%	8.3%	6.6%	13.5%	16.9%	21.0%
Panama City	6.8%	4.3%	5.8%	14.4%	10.9%	18.3%
Smurfit Straight Average	6.2%	4.9%	4.8%	12.7%	17.2%	21.3%

For ease of reference, Table 3 is reproduced here:

Table 3 -- Fisher % Discount From RISI Linerboard Price Realized By Mills

Linerboard	2004	2005	2006	2007	2008	2009
Fern LB	8.4%	7.7%	6.2%	13.9%	15.0%	22.6%
Florence LB	4.5%	3.2%	3.7%	9.9%	31.7%	27.1%

Hodge LB	2.3%	1.1%	1.7%	11.7%	11.7%	17.6%
Hopewell	9.0%	8.3%	6.6%	13.5%	16.9%	21.0%
Panama City	6.8%	4.3%	5.8%	14.4%	10.9%	18.3%
Smurfit Straight Average	6.2%	4.9%	4.8%	12.7%	17.2%	21.3%

18. Applying the weights calculated by Mr. Fisher in Table 4 to Table 10, I then recreated Mr. Fisher's weighted average discount calculations set forth in Table 5 (again with the single minor variance of Florence in 2004 and the use of $409 for Florence in 2008). Once again, though Mr. Fisher purports to be using only domestic third-party sales data, I used data from all channels to recreate it.

Table 11 -- Mishkin Calculation of Smurfit Weighted Average Discount

Linerboard	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Fern LB	2.4%	2.2%	1.8%	4.1%	4.4%	6.6%
Florence LB	1.2%	0.8%	0.9%	2.4%	7.8%	6.6%
Hodge LB	0.4%	0.2%	0.3%	2.1%	2.1%	3.2%
Hopewell	1.4%	1.3%	1.0%	2.2%	2.7%	3.4%
Panama City	0.8%	0.5%	0.7%	1.7%	1.3%	2.2%
Smurfit Weighted Avg	6.3%	5.1%	4.8%	12.5%	18.3%	22.0%

19. As my calculations make clear, Mr. Fisher unknowingly used sales pricing data for all channels, rather than only domestic third-party sales pricing data, as he had thought. This includes the arbitrarily-determined internal transfer pricing, which accounts for approximately 60-70% of the Debtors' linerboard sales, and invalidates his conclusion that the Discount will increase as linerboard prices rise.

20. I also have reviewed the pricing data produced by the Debtors this past weekend, SMS-EH 338614, which is annexed hereto as Exhibit 6. I extracted the monthly data for both the PPW price and SSCC Discount for domestic third-party sales contained in Exhibit 6, and plotted them in the graph annexed hereto as page 5 of Exhibit 7.

21. As Exhibit 7 shows, the actual discount realized by the Debtors on only domestic third-party sales remains relatively flat from 2004 through 2008. Beginning in July of 2008, the PPW price falls dramatically through the end of 2009, and the discount rises sharply as well. Then, once the PPW price begins to rise in January 2010 (along with demand), the Discount drops sharply again. According to this data, therefore, Mr. Fisher's conclusions regarding the behavior of the Discount are incorrect. This conclusion is reinforced by comparing Exhibit 7 to page 22 of the Report, which shows that, as demand (measured by increases in apparent consumption) rose in 2004, the Discount shrank, and as demand fell off in 2005, the Discount grew.

22. Furthermore, this new data appears to indicate that the Discount remained relatively flat in response to small changes in price, but in response to larger changes in price and demand, the Discount changed inversely to the price. In particular, the 2010 data supplied by the Debtors demonstrates that the Discount has shrunk as prices rose. On page 41 of my Report, I demonstrate our adjustment to the Discount, which is consistent with this data. What the chart on the right side of page 41 shows is that between 2007 and 2010, the containerboard discount fell from $28 to $118 per ton, excluding any change in either product mix or white top pricing. I assume in my report that, by 2014, the discount will recover to the $76 level, or regain slightly less than half of the decrease between 2007 and 2010. That result is consistent with the information in Exhibits 6 and 7, which, in my opinion, demonstrate that the discount is fairly

constant, but responds inversely to large PPW price changes and/or changes in demand. Furthermore, the data in Exhibits 6 and 7 is inconsistent with Mr. Fisher's opinion that the Discount will increase across all years, regardless of any other factors.

Levin Declaration

23. I have also reviewed the Declaration submitted by Mr. William Levin, dated May 1, 2010. Mr. Levin makes a number of representations regarding the expert report I submitted in this case (the "Report") that, as set forth in more detail below, are inaccurate.

24. *First*, Mr. Levin treats the Report submitted by Mr. Reynertson and myself as being drafted in concert with those prepared by Mr. Read and Mr. Brokaw. Mr. Reynertson and I did not collaborate with Mr. Read or Mr. Brokaw, and I have not made any attempt to harmonize their conclusions with my own. In short, we did not work together, and Mr. Levin's conflation of our conclusions, and statement that "internal disagreement and conflict on the specific items requiring adjustment highlight the arbitrary nature of their objections to Debtors' plan" is specious. (Levin Decl. ¶ 9.)

25. *Second*, Mr. Levin states that we have "accepted the methodology of" the Levin Model, except for the specifically itemized changes he cites. That is incorrect. While we have accepted certain aspects of the Debtors' Projections, as set forth in the Report, we have not had the opportunity to assess the functionality of the Levin Model in any detail. I believe the Levin Model is flawed in a number of respects, including, without limitation, its inability to account for any benefits from capital spending after 2010, which Mr. Levin does not discuss. My understanding of the Levin Model is that the quality of the output is entirely dependent on the quality of the 2010 forecast that was prepared by the Debtors. I also have not had sufficient opportunity to assess whether the Levin Model functions in the manner that Mr. Levin has

represented it should, and so have drawn no such conclusion. (See Levin Decl. ¶ 7.) Furthermore, contrary to Mr. Levin's assertion, I have not accepted the forecasts for the Reclamation Division or the Corporate Division in their entirety, as set forth in both the Report and my testimony.

26. Furthermore, Mr. Levin states that we assume "that the projections were based on 2009," which, according to Mr. Levin, is not true:

> 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.

(Levin Decl. ¶ 11.)

27. Mr. Levin's statement inaccurately reflects my position. I have not claimed, in either testimony or the Report, that the Debtors simply assumed they would have the same EBITDA in 2010 as in 2009, which is what his math implies. Rather, I have stated my view that the Debtors have based their 2010 forecast on the 2009 trough year. This must be the case, because the Debtors' witnesses have testified that they began the forecasting process in June, 2009, and then developed the 2010 forecast based on the budget for 2010, which they would not simply have made up from whole cloth. The Debtors have testified that they created a budget for 2010, were then asked to create three-year projections, and were later asked to extend their projections to five years. All budgets must have a starting point. In my experience, annual budgets for companies in the paper and packaging industry reflect the company's performance for the prior year. Starting with a budget based on a trough year, then using the budget to create multi-year projections and ultimately a five-year forecast will result in an undervaluation of the company, because it will not fully capture the upside that the industry will experience as the cycle progresses. So, in sum, while it is true that the 2010 forecast was fed into the Levin Model

and used to create the Projections, 2009 was the starting point for the budget on which the 2010 forecast was based.

28. *Third*, Mr. Levin's discussion of the pricing adjustments I made to the Debtors' Projections is a prime example of how the Projections are based on 2009, and reflects a fundamental misunderstanding of our adjustments. He states that "the Debtors by 2014 will realize an incremental $123 million in [Packaging EBITDA] unrelated to changes in containerboard mill pricing." (Levin Decl. ¶¶ 9, 32.) Indeed, he goes on to state that "[t]he GLC/Sanabe packaging price increase occurs without any related linerboard increase in the Mill division." (Id. ¶ 33.) This is not correct. The Debtors assume, with no basis whatsoever, that the premium they obtain on box sales, relative to the price of linerboard, will shrink from its historically flat range of $425-$430. (Report at 40.) The incremental increase in the EBITDA of the Packaging Division cited by Mr. Levin is a result of my adjustment to partially restore that premium, based on historical numbers. To my knowledge, none of the Debtors' or the UCC's witnesses has suggested any reason for that premium to shrink. Moreover, this increase in EBITDA is related to changes in containerboard pricing, as I have assumed, based on the historical trend and management testimony, that changes in box pricing will reflect the changes in containerboard pricing, because box plant salesmen will be able to recover the increased costs of linerboard in the form of higher box prices, as they have in the past.

29. Mr. Levin's purported determination that the Report "accepts the Debtors' projections for containerboard pricing to within an average of $0.72 per ton" is likewise wholly inaccurate. (Levin Decl. ¶ 9.) To reach $0.72 per ton, I believe Mr. Levin added together the columns showing Price Variance for the mills listed on page 38 of the Report, a total of $23

million, then divided that sum by the total tons produced over that period -- approximately 31.5 million tons. This, he says, is immaterial to the valuation.

30. Mr. Levin does not understand the Price Variance, and the result is a number of mistakes. The Price Variance line is the combination of two separate adjustments. My opinion, as stated in the Report and in testimony, is that the Discount will shrink as the industry comes out of the trough -- in other words, that the Debtors will obtain a higher price for their linerboard sold to domestic third-party customers. (Report at 41.) This was included in the Price Variance for the mills, and represents an incremental EBITDA gain of $56 million in 2014. However, to calculate the Price Variance line on page 38, the increase in EBITDA resulting from the shrinking Discount was partially offset by the larger discount at which we assume the Debtors will sell their linerboard in the export market. (Report at 37.) The increase in sales to the export market at a larger discount results in a subtraction of $36 million in incremental EBITDA in 2014, which results in the net of $20 million shown on page 38.

31. Mr. Levin's misunderstanding of Price Variance leads to his incorrect calculation that, based on our adjustments to the Projections, the Debtors would realize $238 per incremental export ton. (Levin Decl. ¶ 19.) He calculated that $238 by dividing the incremental increase in EBITDA, $92 million, by the incremental increase in tons, 387,500, as set forth on page 38 of the Report. (Levin Decl. ¶ 19.) His assumption is that all of those tons would be sold in the export market, which is not what we assumed in the Report. We assumed a portion of those tons would be sold in the domestic third-party market. As I described above, the impact of adding 387,500 tons, and selling many of them in the export market, is a $92 million EBITDA increase based on increased volume, less $36 million of EBITDA removed to account for the lower export pricing, resulting in a net gain of $56 million. Thus, using Mr. Levin's calculation

method, the EBITDA per incremental ton for 2014, as set forth on page 38 of the Report, would be $56 million in EBITDA divided by 387,500 tons, or $144.52 per ton -- not $238.

32. With regard to Mr. Levin's criticism in Paragraphs 22 through 25 of his May 1 Declaration that, essentially, there will be nowhere to sell the exported portion of the 387,500 tons of increased capacity, I disagree entirely. Even Mr. Levin admits that the "incremental volume posited by GLC/Sanabe would … have to be sold to the lower-priced Middle East, Africa and Asia markets, as confirmed by the Debtors' experience in 2008 and 2009." (Levin Decl. ¶ 23.) I agree, and in our adjustments, we account for this by calculating the discount on export prices relative to the linerboard transaction price as decreasing by only $20 from 2009 levels by 2014. In other words, we assume that the excess tonnage will be sold at 2008 and 2009 price levels. Thus, Mr. Levin's criticisms are unfounded, as the Debtors' experience has already born out that the tonnage can be sold at those prices. Furthermore, the incremental tonnage is only a modest increase over the 1.7 million tons sold by the Company in 2008 and 2009, in a market that was significantly weaker. There is no reason to assume a stronger market will not allow the sales of modestly more volume at similar price levels.

33. *Fourth*, Mr. Levin also mischaracterizes my analysis of the Debtors' capital spending. According to Mr. Levin, "GLC/Sanabe assumes no incremental capital expenditures are required to produce the 387,000 incremental tons" that our Report projects. (Levin Decl. ¶ 26.) However, the capital expenditures required to accommodate the capacity increase can be obtained by merely maintaining defensive capital spending at the average 2007-2008 level of $85 million -- far less than the projected defensive capital spending of $150 million per year. Even assuming all of the "capital review" reductions apply to defensive capital, this would still leave adequate excess defensive spending to cover the $123 million of capex

improvements by 2012. Furthermore, the Debtors have already accounted for sufficient capital spending to support the additional capacity, as described on page 61 of the Report. The incremental improvements to Uptime, Power Efficiency and Reliability, Quality, Fiber Efficiency, and Waste Reduction between 2010 and 2012 will satisfy that $123 million threshold.

34. *Fifth*, Mr. Levin's assault on our fixed cost assumptions is flat wrong. First, there is no basis to include Co-Gen Contribution, as I testified previously, because the data makes clear that some change has occurred in how the Co-Gen Contribution is accounted for since the 2004-2006 time period, and the large Co-Gen Contribution numbers from that period are no longer relevant. (Levin Decl. Ex. 3 at 3.) After removing the Co-Gen Contribution, the growth rate of fixed costs is 1.1% per annum between 2004 and 2009. (Report at 30.) Mr. Levin does not dispute that conclusion. Instead, he selectively cites various time periods to show that the data is not smoothly growing at that rate. I agree -- the data is lumpy. However, the Compound Annual Growth Rate is still 1.1% per annum for that time period, regardless of what it might be for any portion of that period.

35. He further asserts, without any supporting data, that fixed costs for labor are at the maximum possible efficiency: "[t]he Debtors benchmarked and reduced headcount across their mill system over this period and now operate at competitive levels versus the industry." (Levin Decl. ¶ 29.) There is simply no basis to state that the Debtors maximized labor efficiency, and my experience in the industry is that there will always be opportunities for incremental gains. Similarly, Mr. Levin states that "the Debtors' aging mills will experience rising fixed costs." (Id.) Even if that were supportable by any facts, and there are no facts to suggest that the Debtors' mills will deteriorate any faster in the next five years than they did in

the last five, the Debtors are nearly doubling their defensive and maintenance capital spending per year going forward. That increased capital expenditure must have some effect, but, tellingly, Mr. Levin does not discuss it. Furthermore, Mr. Levin and the Debtors continue to tout the hiring of Mr. Exner to run their mills. (Levin Decl. ¶ 16.) It seems hard to conceive that such a highly-regarded new hire would not improve on his predecessor's ability to control fixed costs.

36. Moreover, Mr. Levin states that "GLC/Sanabe offers no rationale as to why RISI is not a reasonable basis for estimating cost inflation of" general supplies, maintenance, plant expenses, and environmental expenses. (Levin Decl. ¶ 30.) The rationale is simple. RISI offers industry-wide estimates, while the Debtors' historical record offers company-specific data (which indicates that the Company has outperformed RISI's estimates historically). There is no reason to use a general measure when a specific one is available. Furthermore, Mr. Levin acknowledges that RISI's estimates only cover 14% of mill costs. Instead, we relied on actual historical data representing over 75% of the mills' fixed costs.

37. *Sixth*, Mr. Levin compares apples to oranges by stating that "GLC/Sanabe is simply incorrect in its hypothesis that Debtors have forecast a compression in margins" because "[t]he 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." (Levin Decl. ¶¶ 34, 35.)

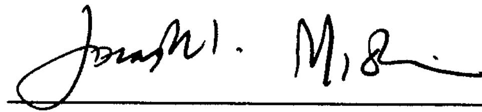
38. The Debtors have projected a compression of margins in the Packaging division, as shown on Exhibit 2 to my Declaration dated April 20, 2010. The Adjusted EBITDA for the Packaging Division falls from $74 million in 2010 to negative $151 million in 2014 in the Debtors' Projections, assuming internal transfer pricing policies remains constant. By adjusting the transfer pricing policies, the Debtors are able show $31 million of EBITDA in the Packaging

Division in 2014. Thus, our assertion regarding compressed margins in the Packaging Division is correct, and has nothing to do with the Debtors' aggregate profitability.

39. More importantly, Mr. Levin uses the wrong EBITDA figures. He uses $362 million for EBITDA in 2009, which is, as described above, the unadjusted figure that does not include $163 million in positive adjustments. (Levin Decl., Ex. 5.) Furthermore, the "29% rise in per ton profits" does not "unambiguously rebut[]" our conclusion regarding margin compression in the Packaging Division. (Levin Decl. ¶ 35.) As the Report demonstrates, the Debtors are too conservative in their projections for the mill division, and too conservative in their projections for the packaging division. Ignoring margin compression in each segment of the business by viewing the business as an integrated whole does not remove the conservatism from the Debtors' Projections -- it only hides it. Even viewing the Debtors' Projections on an EBITDA/ton basis, they remain too conservative, for all the reasons set forth in the Report.

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

Dated: May 2, 2010
New York, New York



Jonathan I. Mishkin