

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Paper and Packaging Monitor
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Introduction

Welcome to the second issue of the *Paper and Packaging Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market value and industry trends for a variety of paper and packaging products. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the commodity nature of paper and packaging products, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

The *Paper and Packaging Monitor* relates information covering the pulp, paper, and packaging market, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the paper and packaging industries. Please feel free to utilize our contact information shown in this and all *Paper and Packaging Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

Trend Tracker
NOLVs: Increasing
Sales Trends: Decreasing
Gross Margin: Increasing
Inventory: Decreasing
Pricing: Increasing

Net orderly liquidation value (“NOLV”) changes for specific categories and companies varied based on market price and companies’ ability to manage inventory levels and categories with respect to market supply and demand.

While paper recovery values were up over the prior year, they remained relatively consistent in the first quarter of 2011 versus the previous quarter. Recovery value trends for packaging ranged from a decrease of three percentage points to an increase of up to six percentage points versus the prior quarter.

GA internally tracks recovery ranges for pulp, paper, paperboard and corrugate, resin, and other product categories for paper and packaging manufacturers, wholesale distributors, and retailers, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

Great American Group (“GA”) is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms. In addition to the *Paper and Packaging Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, food, automotive, building materials, and chemicals industries, among many others.

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EXPERIENCE

GA was involved in the liquidations of assets for paper and packaging companies, including the following transactions:

LIQUIDATIONS

- **Colfax Envelope Corporation:** Formerly a manufacturer and distributor of high-quality custom lithographed/offset envelopes for financial services and direct mail companies.
- **Solar Graphics, Inc.:** A printer and supplier of graphic signs including banners, window display films, and screen-printed products.
- **WWF Paper:** Formerly a manufacturer and distributor of printing and writing papers, with more than 100 U.S. and international paper mills.
- **Tye-Sil:** Formerly a leading Canadian provider of gift wrap and accessories.
- **Royal Plastics:** A manufacturer of a variety of custom plastic products.
- **Kemco Plastics, Inc.:** A manufacturer of custom-molded plastic products, serving the packaging industry in addition to the military, aerospace, consumer goods, medical, furniture, automotive, and industrial sectors.
- Others including Usdan Paper Company, Pandick Press, Target Graphics, Unicover Corp., Wicklander Printing Corp., and Office Max.

In addition, GA has worked with and appraised numerous manufacturers and distributors within the paper and packaging industries. While our clients remain confidential, they range in scale from smaller, more specialized regional businesses to major global and national industry leaders, and include the following sampling of companies:

APPRAISALS

- Leading manufacturers and regional distributors of premium, writing, text, cover, and specialty papers in a variety of colors, weights and finishes; durable, saturated, and coated base papers for a variety of applications; pulp; and other wood-based products, including a global forest products company with annual sales over \$3 billion.
- Manufacturers, distributors, and brokers of book publication papers, coated and uncoated freesheet, supercalendared and coated groundwood papers, newsprint, and other fine paper purchased by U.S. book, magazine, and advertising publishers, including companies with more than \$400 million in sales.
- Distributors and printers of sheet-fed paper products such as pressure-sensitive paper and film used in a variety of applications, including inserts, magazines, direct mail, and other print mediums, including a major North American commercial printer with annual revenues in excess of \$3 billion.
- A leading U.S. manufacturer of printed/unprinted envelopes in various sizes and styles for the merchant/wholesale market, large envelope consumers, and specialty wholesalers, with annual sales over \$500 million.
- Manufacturers and distributors of corrugated containers, containerboard, retail packaging, and packaging products such as point-of-purchase displays, protective packaging materials, and pressure-sensitive labels for a variety of industries, including a global company with annual sales exceeding \$5 billion.
- Manufacturers of flexible packaging products such as specialty bags, sheets, wraps, wrappers, sleeves, and other packaging products for various snack food and candy manufacturers, quick-service restaurants, food-service companies, and grocery stores, including manufacturers with annual sales greater than \$300 million.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the paper and packaging industries that we utilize for insight and perspective on recovery values.

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OVERVIEW

PAPER

As the global economy continued to recover, the paper industry demonstrated modest improvement in the first few months of 2011. According to RISI, Inc. (“RISI”), graphic papers such as newsprint in addition to printing and writing papers experienced a 4.8% increase in global demand in 2010, which represented a demand boost of 6.5 million metric tons, versus declines of 20 million metric tons in the prior two years. However, the 2010 improvement was driven by a rebalancing of inventory levels, and the 2011 trend should prove to be a more accurate indicator of true demand.

Overall, paper demand appears to have begun to rise above 2010 levels, although shipments of certain categories have declined on a month-over-month basis. The American Forest and Paper Association (“AFPA”) reported total shipments of printing/writing paper increased 1% in March 2011 versus 2010, and rose sharply from the previous month.

Year-over-year, uncoated freesheet and coated mechanical paper shipments increased, exports for uncoated mechanical paper increased for the first time in five months, and shipments of coated mechanical paper remained relatively flat. The total inventory levels for printing/writing paper declined 5% versus the previous month.

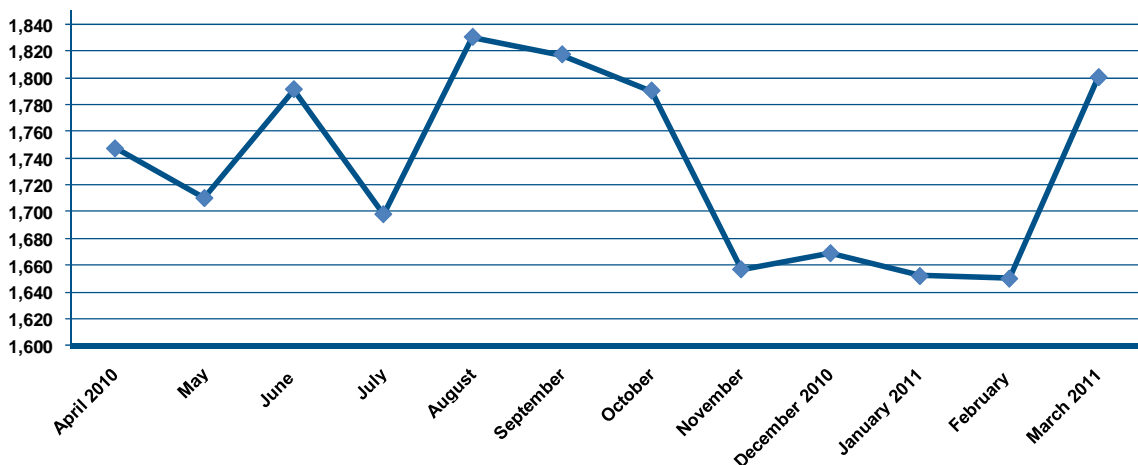
The AFPA also indicated total shipments of Kraft paper, which is used in paper bags and envelopes, increased 11.1% in February 2011 versus 2010, but declined 3.0% compared to the prior month.

The relative strength of the paper industry thus far in 2011 compared to 2010 is also reflected in the financial performance of certain major paper companies. International Paper Company reported an 8.8% increase in earnings for its first quarter of 2011 versus the prior quarter, with earnings up significantly from the first quarter of 2010. In addition, Domtar Corporation and MeadWestvaco Corporation’s (“MeadWestvaco”) first-quarter earnings were both well above the prior year.

The higher earnings for these companies were in spite of elevated costs, as they were able to expand into new markets and successfully implement price increases. However, not all paper companies could combat the rising costs of pulp and oil-based materials as well as escalating freight and energy expenses, with many businesses struggling to keep up by raising product pricing and initiating other cost-cutting measures.

“If oil prices continue to rise over a prolonged period, along with ongoing food inflation and high domestic unemployment, it could reduce consumer spending and slow overall demand in the back half of this year,” warned Mark Rajkowski, MeadWestvaco’s chief financial officer.

**Printing-Writing Paper Shipments
(Tonnes in 000s)
April 2010 Through March 2011**



OVERVIEW

PACKAGING

After rising at the end of 2010, U.S. corrugated box shipments continued to gain momentum in 2011. RISI reported box shipments totaled 32.9 billion square feet in March 2011, climbing 4.1% from the March 2010 figure and marking the highest level of shipments since before the recession.

The March shipments may reflect pent-up demand due to delivery delays in January and February caused by inclement weather conditions. As a result of the March boost in shipments, first-quarter box shipments increased 2.0% versus the previous year. The increase in shipments may also have been driven by planned production downtime due to maintenance in the second quarter of the year.

March 2011 containerboard production climbed 1.6% to 2.9 million tons versus the same month the prior year, with production up 1.8% year-to-date through March versus the same period last year. Corrugating medium led the increase with higher production by 3.0% for March and 3.2% year-to-date through March.

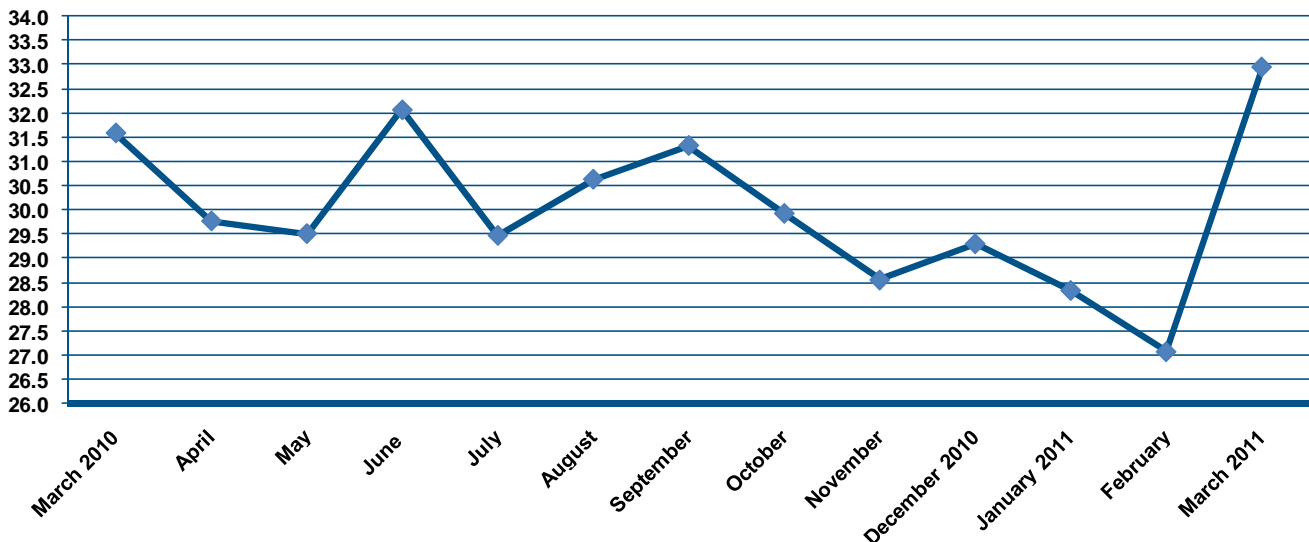
However, containerboard inventories at mill plants fell to 2.3 million tons by the end of March, down from 2.5 million tons in February but remaining above 2.1 million tons in March 2010.

In industry news, Rock-Tenn Company and Smurfit-Stone Container Corporation are on the verge of a proposed merger that would create the second-largest containerboard and box manufacturer in North America; shareholders are set to vote on the transaction on May 27, 2011.

The plastic packaging market is poised to grow in 2011, with the global value of the market expected to reach \$180 billion this year based on a report from Visionsgain. In 2010, plastic was the leading packaging material used in new product launches.

The market for plastic packaging includes flexible and rigid containers, bottles, wraps, bags, pouches, and other packaging produced from resins such as polyethylene (“PE”), polyethylene terephthalate (“PET”), high-density polyethylene (“HDPE”), polyvinyl chloride (“PVC”), low-density polyethylene (“LDPE”), polypropylene (“PP”), and polystyrene (“PS”).

**Box Shipments
(Square Feet in Billions)
March 2010 Through March 2011**



RECENT APPRAISAL TRENDS

PAPER

Although overall paper demand has risen above 2010 levels, demand for certain paper grades waned in the first few months of 2011, and not all companies were able to overcome rising raw material costs and operating expenses. Paper recovery values therefore remained relatively stable over the previous three months, while values compared to the prior year stayed flat for some companies, while rising up to seven percentage points for others. Increases in recovery values were primarily driven by improved gross margins and lower weeks of supply for the companies that addressed the increases in costs, as well as those that managed inventory levels appropriately.

GA has worked with major national paper manufacturers and distributors that offer a broad range of paper products. Inventory categories that represent paper in uncommon colors or grades typically recover lower on cost than more basic categories, unless tied to a customer order or contract.

PULP

Appraisals valuing pulp inventory are generally dependent on market prices, as pulp is commodity in nature, with market prices often driven by paper demand. In these appraisals, the inventory at cost is compared to spot or contract market prices as well as competitors' inventory at cost. For appraisals conducted in the first few months of 2011, recovery values for pulp either remained relatively flat or increased up to two percentage points when compared to both the previous quarter and the 12 months prior. Recovery values for pulp take into consideration discounts applied based on demand, availability, and the types of customers.

CHIPS/WOOD

In 2011, recovery values for chips and wood have remained relatively flat over the previous three months, but have either held steady or increased up to two percentage points year-over-year. These goods are readily available from a wide variety of vendors in North America, and therefore achieve lower recovery values due to the discounts applied to encourage purchases. Chips and wood are also subject to market price fluctuations.

PACKAGING

The packaging industry continued to gain traction in the first quarter of 2011, with increased production and shipments versus the same period the prior year. However, this positive trend was partially offset for packaging producers that were unable to cope with the rising costs of raw materials such as pulp, paper, and resin, as well as high energy costs.

Recovery values for packaging products were therefore mixed in the first quarter of 2011 versus the previous quarter, with the trend ranging from a decrease of three percentage points to an increase of up to six percentage points. Year-over-year, values either increased or decreased based on the gross margin and weeks of supply trends of each company.

GA has conducted multiple appraisals for manufacturers and distributors of corrugated and plastic packaging products, including generic goods as well as custom packaging made to customer specifications or bearing customer logos.



GA considers key factors when developing recovery values for these custom items, including contract terms, stocking agreements, lead times for customers to secure an alternative supplier, and whether the company is the sole supplier of inventory to its customers.

Plastic packaging manufacturers also often maintain pricing contracts with customers, which may allow for the pass-through of resin costs or establish a fixed dollar-per-unit of gross margin. In general, value changes correlate with changes in market price.

Recovery values for plastics remained consistent or increased as much as three percentage points for the first quarter of 2011 as well as the 12-month period. In the valuation of plastic resins, GA compares the market price or acquisition price per unit of the inventory to the cost per unit.

MONITORING POINTS

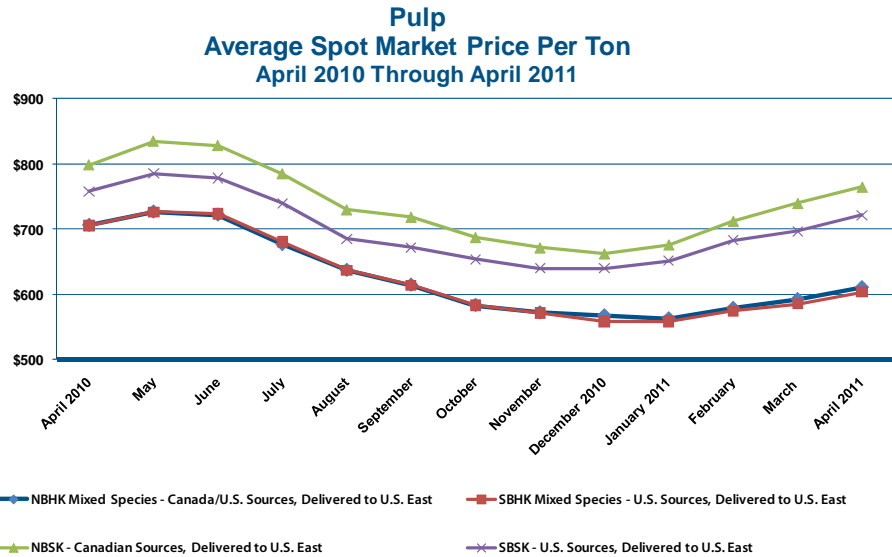
Monitoring Point	Impact
Monitor paper and packaging market conditions.	A downturn in the paper or packaging manufacturing industry, or in customer markets such as publishing, food service, and consumer goods, could have a negative impact on sales. In addition, increased competitive pricing pressures, and/or a decrease in market share could have a negative impact on sales, gross margin, and weeks of supply.
Monitor RISI and other industry-reference paper/packaging market prices, <i>ICIS</i> and other industry-reference plastic market prices, acquisition costs, and gross margin.	An increase in market price and/or acquisition costs without a corresponding increase in product selling prices would decrease the gross margin. The decline of market prices below the inventory at cost would have a negative impact on recovery values.
Monitor supplier and customer contracts, as well as returns, accounts receivable activity, and open sales orders.	A loss or cancellation of supplier or customer contracts could decrease sales, increase weeks of supply, increase the level of obsolete inventory, and have a negative impact on recovery values.



PRICING TRENDS

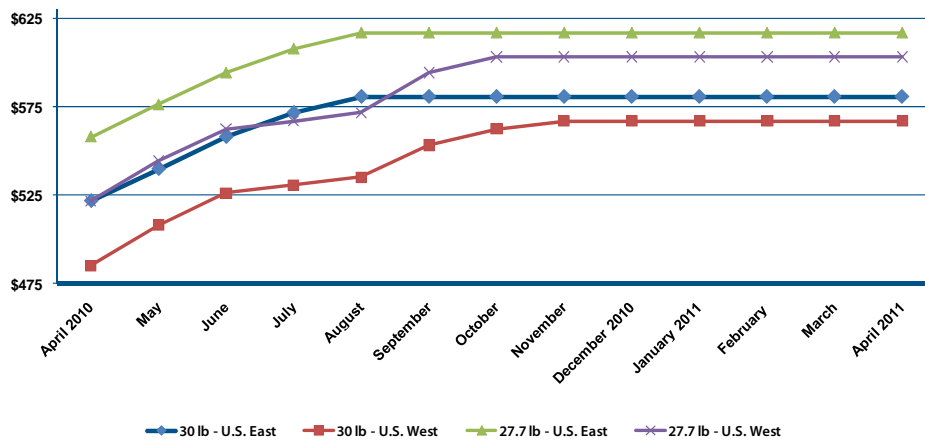
PULP

After declining towards the end of 2010, pulp market prices rebounded in the first quarter of 2011 as producers implemented a series of price hikes. Northern bleached softwood kraft (“NBSK”) pulp prices reached a high of \$828 per ton in June 2010 and dipped to averages of \$662 and \$676 per ton in December 2010 and January 2011, respectively, before rising to an average of \$764 per ton in April 2011. In April 2010, NBSK prices had averaged \$798 per ton.



The U.S. price for NBSK, which serves as a benchmark for other pulp prices, is expected to hold steady in the short term, as there are few significant drivers that would push prices back into the realm of volatility in the near future. Further price increases may render pulp no longer affordable, while supply limitations help prevent prices from slipping too far, leaving prices at a stalemate for the time being.

**Newsprint
Market Price Per Ton
April 2010 Through April 2011**



PAPER

In 2011, market prices for certain paper grades began increasing gradually, as producers seek to cover rising expenses and compensate for the slight price increases implemented in 2010. Many paper producers are feeling the sting of elevated pulp prices, and have endeavored to pass on these increased raw material costs to customers via product price hikes to avoid a hit to their margins. Paper companies also face higher crude oil and retail gas prices, which affect production and transportation costs.

Several paper producers announced price hikes of \$40 per ton for coated freesheet and coated mechanical products, which were effective in April 2011, with many companies also raising prices for uncoated mechanical grades, including converting grades. According to RISI, market prices for number five 34-pound coated groundwood paper rolls increased 13.2% in April 2011 versus 2010 and rose 1.0% from the previous month.

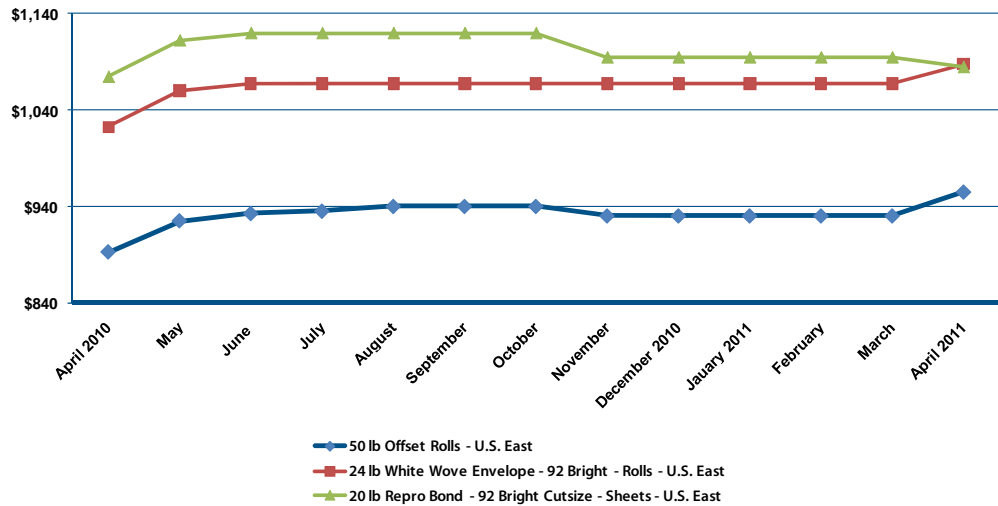
PRICING TRENDS

PAPER

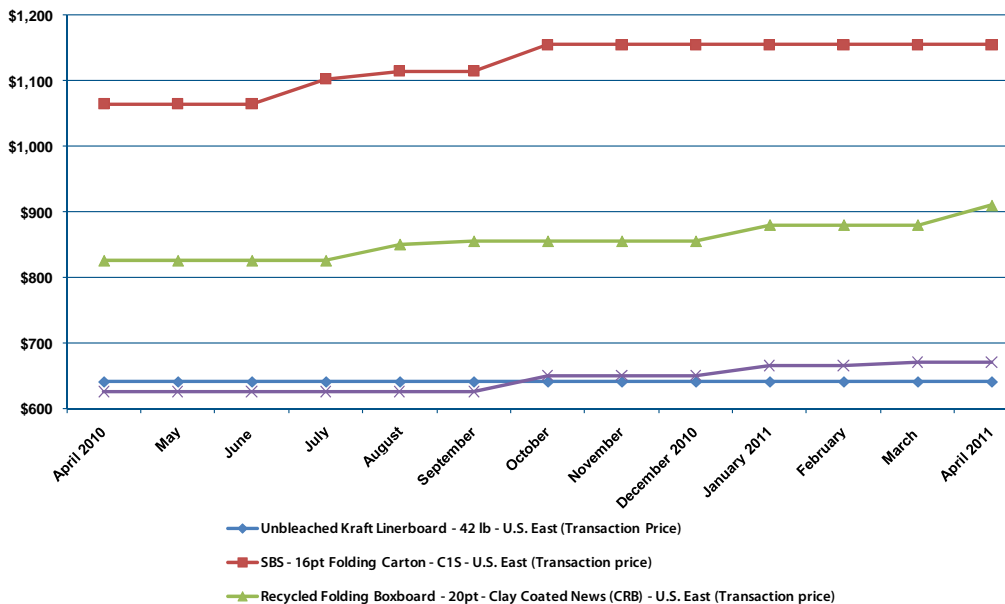
Uncoated mechanical and uncoated freesheet market prices remained stable from January through March 2011.

Prices for certain grades increased 2% to 3% in April, while others declined slightly.

**Uncoated Paper
Average Spot Market Price Per Ton
April 2010 Through April 2011**



**Paperboard and Containerboard
Average Market Price Per Ton
April 2010 Through April 2011**



PAPERBOARD AND CONTAINERBOARD

Domestic market prices for paperboard and containerboard remained relatively stable for the last few months of 2010 and into 2011, with prices for certain items rising modestly.

According to RISI, the transaction price for 16-point C1S SBS folding carton in the U.S. East remained consistent with the average price from October 2010 through March 2011, but fell below the average price for April 2010.

The transaction price for 20-point CRB folding boxboard, clay coated news, in the U.S. East increased approximately 3% from March to April 2011, and climbed 9% from April 2010 to April 2011. However, prices may be poised to increase, as certain major producers announced additional price hikes for paperboard and cartonboard effective in late May and early June.

PRICING TRENDS

RESIN

Many resins are produced from oil feedstocks, and resin prices therefore tend to follow a similar trend as oil prices. Crude oil prices have been rising for a variety of reasons including higher refinery utilization and related costs, positive signs of demand from the industrial manufacturing sectors, demand from second-largest oil consumer China, and the weak U.S. dollar.

The market price for PET bottle resin increased from \$0.66 per pound as of March 23, 2010 to \$1.04 per pound as of April 25, 2011, marking the highest price in more than two years and surpassing the previous peak of \$0.96 per pound as of July 28, 2008.

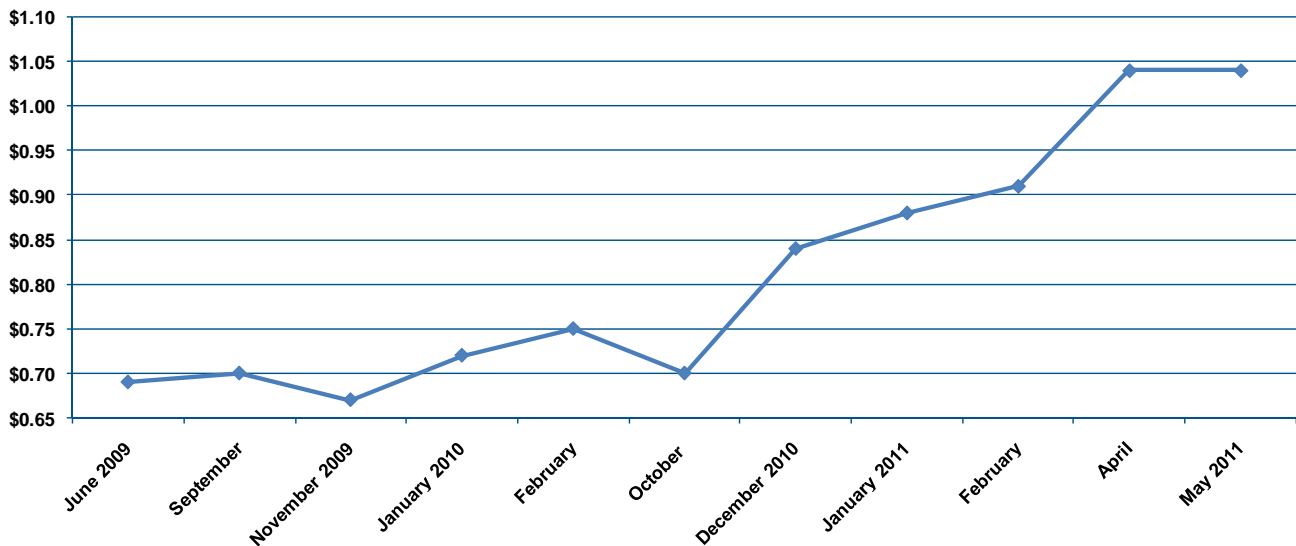
PP producers also initiated price increases in the first quarter of 2011, with a regional 15-cent-per-pound hike registered in April, according to *Plastics News*. PP prices have also been elevated by tight supplies of the PP monomer.

PE prices remained relatively stable in early 2011 despite tight supplies, as domestic and export demand has been flat. However, prices climbed 11 cents per pound year-to-date through April, primarily driven by a six-cent hike in April.



The PS market price is also on the rise, with U.S. prices among the highest in the world, pushed by increases in feedstock benzene prices. However, the resin pricing remains volatile.

PET Bottle Resin
Annual Volumes Greater Than 20 Million Pounds
Average Market Price Per Pound
June 2009 Through May 2011



REFERENCE SHEET

PPI Average Pulp Spot Prices (\$ per Ton) - % change from previous month

	February 2011	March 2011	April 2011
NBHK Mixed Species - Canada/U.S. Sources, Delivered to U.S. East (\$560 to \$610/ton)	3%	2%	3%
SBHK Mixed Species - U.S. Sources, Delivered to U.S. East (\$560 to \$600/ton)	3%	2%	3%
NBSK - Canadian Sources, Delivered to U.S. East (\$680 to \$760/ton)	5%	4%	3%
SBSK - U.S. Sources, Delivered to U.S. East (\$650 to \$720/ton)	5%	2%	4%

PPI Newsprint Paper Market Prices (\$ per Ton) - % change from previous month

	February 2011	March 2011	April 2011
Newsprint 30lb (48.8g) - U.S. East (\$580/ton)	0%	0%	0%
Newsprint 27.7lb (45g) - U.S. East (\$615/ton)	0%	0%	0%
Newsprint 27.7lb (45g) - U.S. West (\$600/ton)	0%	0%	0%
Newsprint 30lb (48.8g) - U.S. West (\$570/ton)	0%	0%	0%

PPI Average Uncoated Paper Market Prices (\$ per Ton) - % change from previous month

	February 2011	March 2011	April 2011
50lb (70g) Offset Rolls - U.S. East (\$930 to \$955/ton)	0%	0%	3%
20lb (80g) Repro Bond 92 Bright Cutsheet Sheets - U.S. East (\$1,085 to \$1,095/ton)	0%	0%	(1%)
24lb White Wove Envelope - 92 Bright - Rolls - U.S. East (\$1,070 to \$1,190/ton)	0%	0%	2%

REFERENCE SHEET

PPI Average Paperboard and Containerboard Market Prices (\$ per Ton) - % change from previous month

	February 2011	March 2011	April 2011
Unbleached Kraft Linerboard - 42lb - U.S. East (Transaction Price) (\$640/ton)	0%	0%	0%
SBS - 16pt Folding Carton - C1S - U.S. East (List Price) (\$1,155/ton)	0%	0%	0%
Recycled Folding Boxboard - 20pt - CRB - Clay coated news - U.S. East (Transaction Price) (\$880 to \$910/ton)	0%	0%	3%
Recycled Folding Boxboard - 20pt - URB - Uncoated Bending Chip - U.S. East. (Transaction Price) (\$665 to \$670/ton)	0%	1%	0%

PET Average Spot Market Prices, Annual Volumes Greater than 20 Million Pounds (\$ per Pound) % change from previous reported month

	January 2011	February 2011	April 2011	May 2011
PET Bottle Resin (\$0.85 to \$1.05/lb)	5%	3%	14%	0%

HDPE Average Spot Market Prices, Annual Volumes Greater than 20 Million Pounds (\$ per Pound) % change from previous reported month

	December 2010	March 2011	April 2011	May 2011
HDPE Blow Molding Copolymer (\$0.85 to \$1.00/lb)	5%	3%	2%	6%