MADISON'S TIMBER PREVIEW

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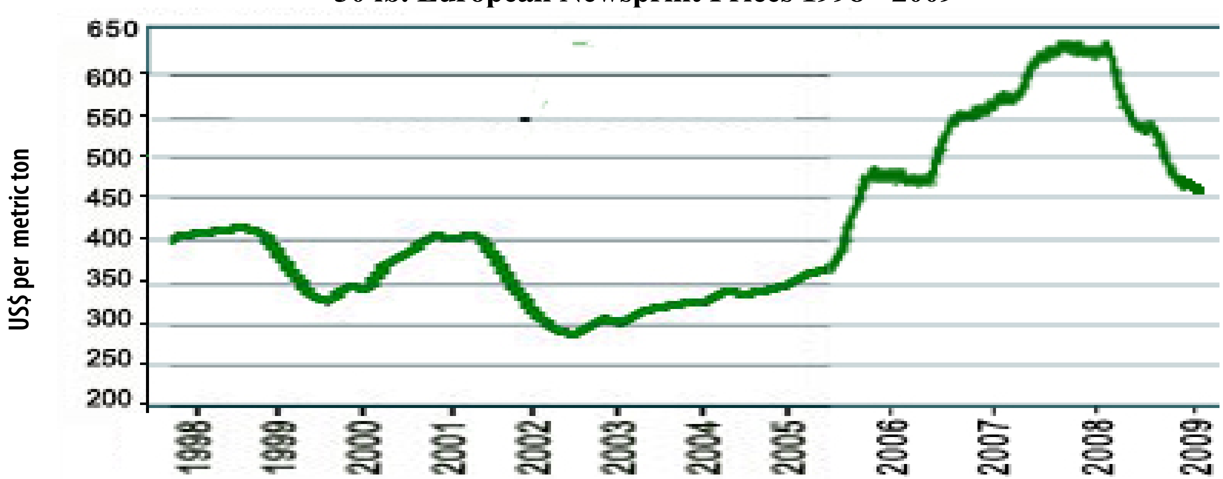
The latest casualty in the fast-changing world of the North American wood products industry is Smurfit-Stone Container Corp., which declared bankruptcy this week. The company is largely based in the United States, with 12 paper mills mostly in the east, and two paper mills in Quebec. Corrugated container operations across North America number in the hundreds. Smurfit-Stone is a leading manufacturer of paperboard and paper-based packaging, containerboard, and corrugated containers. Its share of the North American market approximates 18 per cent for these products. Formed from a merger between Jefferson Smurfit Corp. and Stone Container Corp. in 1998, Smurfit-Stone Containers enjoyed healthy growth for several years and became an industry leader in safety performance.

In 1998, Jefferson Smurfit Corp., based in Clayton, Mo., was an integrated producer of paper, paperboard and packaging and the industry's largest collector, marketer and exporter of recovered fibre. The company operated more than 150 mills and converting facilities and employed nearly 16,000 people. In the same period, Chicago's Stone Container Corp. had 201 manufacturing facilities and sales offices in North America, Europe, Central and South America, Australia and Asia, and employed more than 20,000 people.

30 lb. European Newsprint Prices 1998 - 2009



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Smurfit-Stone Container Corp. Earnings Yield 1998 - 2007

At the beginning of the 1980s Stone Container President and CEO Roger Stone, a descendent of company founder and Russian immigrant Joseph Stone, embarked on an aggressive acquisition campaign. The first step involved a $55 million expansion of the then ultra-efficient Florence linerboard plant, then in 1981 Stone Container bought an equity position in Dean-Dempsy Corporation, a wood-chip fibre source. Continuing in this way, the company quintupled its annual capacity to 4.8 million tons by 1987, at a cost that was one-fifth that of new plants.

From 1983 to 1987 the acquisitions continued at a volume that is staggering in hindsight. First $510 million was paid for three highly efficient paper mills, 15 box plants and cutting rights to almost 1.5 million acres from the distressed Continental Group in a deal with effectively doubled Stone Container's annual capacity to 2.3 million tons. Next the company paid $457 million for three containerboard mills and 52 box and bag plants from Champion International Corp. In 1987 a payment of $760 million was made to Southwest

Forest Industries, a containerboard company that also made newsprint. Two large pulp & paper mills, 19 corrugated container plants, assorted plywood and veneer plants, some lumber mills and a railroad all came under the control of Stone Container. In all the company spent over $1.7 billion in five years, and reduced the Stone family ownership shares from 57 per cent to 30 per cent.

Undaunted, Roger Stone made the largest company acquisition to date in 1989, doling out $2.2 billion in cash and securities for Canadian pulp and paper company Consolidated-Bathurst Inc. The purchase made Stone Container the world's second largest producer of pulp, paper, and paperboard; a major player in newsprint; and gave Stone Container a foothold in the European market. In late 1993 the company sold 25 per cent of Consolidated-Bathurst, renamed Stone-Consolidated, to the public, raising about $575 million. In May 1997, Stone-Consolidated merged with Abitibi-Price Inc. to form Abitibi-Consolidated Inc., the world's largest newsprint maker, 25 per cent owned by Stone. In September of that year, Stone Container bought out the 50 per cent interest in MacMillan-Bathurst held by MacMillan Bloedel Ltd. for C$185 million, and then immediately sold the interest to a Canadian subsidiary of the Jefferson Smurfit Group for the same amount. Also in September, Stone Container sold its Snowflake newsprint unit to Abitibi-Consolidated for about $250 million. This ended Stone's direct involvement in the newsprint business, although it had not yet sold its 25 per cent stake in Abitibi-Consolidated.

Ireland-based packaging conglomerate Jefferson Smurfit Group made its first move into the United States in 1974 when it acquired a 40 per cent interest in Time Industries Inc., a small Chicago-based maker of paperboard and packaging products. Also no stranger to acquisitions, Jefferson Smurfit Corp. spent $270 million in 1986, plus a $1.2 billion leveraged buyout in a joint venture with Morgan Stanley. Through this aggressive acquisition strategy, company revenues increased from $630.4 million in 1985 to $1.1 billion in 1987. By 1997 Jefferson Smurfit Corporation had sales of more than $4 billion, with 43 per cent of revenues coming from its containers/containerboard sector, and 28 per cent from folding carton and boxboard. In 1998 both Smurfit and Stone had revenue and debt problems, requiring a major restructuring. In May an agreement was reached whereby Jefferson Smurfit acquired Stone Corp. for $2 billion. The merger was expected to generate annual savings in excess of $350 million and combined annual sales of over $8 billion for the new company. Jefferson Smurfit also agreed to assume $4.35 billion of Stone Container's debt. The newly-formed Smurfit-Stone Container Corp. continued the acquisition rampage started by both its parent companies, in 2000 buying Canada's St. Laurent Paperboard, Inc. for nearly $1 billion in cash and stock. To finance the deal, Smurfit-Stone raised $625 million in new debt and issued 25 million new common shares, raising the the number of outstanding shares to 250 million.

Respectable dividends were earned on those shares for several years, until 2003 when the massive organization started suffering losses. Caught in the tailspin of newsprint prices, the company fought valiantly to regain its former profitable status, eventually being forced to both close and sell off mills and plant operations. With ever-increasing losses Smurfit-Stone filed for bankruptcy on January 26, 2009. A mentality of constant expansion fueled by the belief that market conditions would remain stable, or even improve, seems to be what got the company into difficulty.

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