

MERCER INTERNATIONAL INC.

Form 424B5

July 19, 2013

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Filed pursuant to Rule 424(b)(5)  
Registration No. 333-185246

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED DECEMBER 3, 2012

## MERCER INTERNATIONAL INC.

### \$50,000,000 9.5% SENIOR NOTES DUE 2017

Mercer International Inc., or Mercer or the Company, is offering \$50,000,000 aggregate principal amount of its 9.5% Senior Notes due 2017, or the Additional Senior Notes. The Additional Senior Notes offered hereby will be issued as additional notes under the indenture, dated as of November 17, 2010, which we refer to as the Indenture, between us and Wells Fargo Bank, National Association, as trustee, pursuant to which we previously issued \$300,000,000 aggregate principal amount of 9.5% Senior Notes due 2017, which we refer to as the Existing Senior Notes. The Additional Senior Notes will have the same CUSIP number, be fully fungible with, rank equally with and form a single series with the Existing Senior Notes.

The Additional Senior Notes will bear interest at a rate of 9.5% per year. Interest on the Additional Senior Notes will be payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2013. Interest on the Additional Senior Notes will accrue from June 1, 2013. The Existing Senior Notes and the Additional Senior Notes, collectively referred to as the Senior Notes, will mature on December 1, 2017.

We have the option to redeem all or a portion of the Senior Notes at any time on or after December 1, 2014, at the redemption prices set forth in this prospectus supplement or before December 1, 2013, upon payment of a make-whole premium. In addition, before December 1, 2013, we may redeem up to 35% of the aggregate principal amount of the Senior Notes with the net cash proceeds of certain equity offerings if certain conditions are met. If we undergo a change of control or sell assets, we may be required to offer to purchase the Senior Notes.

The Senior Notes are unsecured and rank equally with all of our other existing and future unsecured senior debt. The Senior Notes are not guaranteed and will be effectively junior to our secured indebtedness and the indebtedness and other liabilities of our subsidiaries.

***Investing in the Additional Senior Notes involves certain risks. See Risk Factors beginning on page S-14 of this prospectus supplement and on page 3 of the accompanying prospectus to read about factors you should consider before buying the Additional Senior Notes.***

**None of the Securities and Exchange Commission, referred to as the SEC, any state securities commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

Public Offering Price	Underwriting Discount	Proceeds, Before Expenses, to Us
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Per Additional Senior Note	104.500%	2.250%	102.250%
Total	\$ 52,250,000	\$ 1,125,000	\$ 51,125,000

The initial public offering price set forth above does not include accrued interest. Interest on the Additional Senior Notes will accrue from June 1, 2013 and must be paid by the purchasers.

The Additional Senior Notes will not be listed on any securities exchange. Currently, there is no active trading market for the Senior Notes. The underwriter expects to deliver the Additional Senior Notes through the facilities of The Depository Trust Company against payment in New York, New York on July 22, 2013.

*Sole Book-Running Manager*

**Credit Suisse**

**The date of this prospectus supplement is July 17, 2013.**

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You should rely only on the information contained or incorporated by reference or provided in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer of the securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, or any other document incorporated by reference in this prospectus supplement or the accompanying prospectus, is accurate only as of their respective dates, and in the event any previously disclosed information is updated, amended or supplemented in this prospectus supplement or the accompanying prospectus, or any of the documents incorporated by reference herein or therein, you should rely on the most recent disclosure contained in this prospectus supplement or the accompanying prospectus, or any of the documents incorporated by reference herein or therein. Our business, financial condition, results of operations and prospects may have changed since those dates.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement is part of a registration statement that we have filed with the SEC utilizing a shelf registration or continuous offering process. Under this process, we are offering to sell the Additional Senior Notes using this prospectus supplement and the accompanying prospectus. This prospectus supplement describes the specific terms of this offering. The accompanying prospectus gives general information about our offerings of debt securities described in the accompanying prospectus. You should read this prospectus supplement and the accompanying prospectus, as well as the documents incorporated by reference herein and therein, and the additional information described below under the heading "Where You Can Find More Information". If the information contained or incorporated by reference in this prospectus supplement is inconsistent with the accompanying prospectus, the information contained or incorporated by reference in this prospectus supplement will apply and will supersede that information in the accompanying prospectus.

In this prospectus supplement, please note the following:

references to we, our, us, the Company or Mercer mean Mercer International Inc. and its subsidiaries, unless the context clearly suggests otherwise, and references to Mercer Inc. mean Mercer International Inc. excluding its subsidiaries;

references to ADMTs mean air-dried metric tonnes;

references to MW mean megawatts and MWh mean megawatt hours; and

€ refers to Euros; \$ refers to U.S. dollars; and C\$ refers to Canadian dollars.

Due to rounding, numbers presented throughout this prospectus supplement may not add up precisely to totals we provide and percentages may not precisely reflect the absolute figures.

**INDUSTRY AND MARKET DATA**

In this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, we rely on and refer to information and statistics regarding our market share and the markets in which we compete. We have obtained some of this market share information and industry data from internal surveys, market research, publicly available information and industry publications. Such reports generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed. Although we believe this information is reliable, neither we nor the underwriter have independently verified or can guarantee the accuracy or completeness of that information, and investors should use caution in placing reliance on such information.

Statements in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein concerning the production capacity of our pulp mills are management estimates based primarily on historically achieved levels of production and assumptions regarding maintenance downtime. Statements concerning electrical generating capacity at our mills are also management estimates based primarily on our expected pulp production (which largely determines the amount of electricity we can generate) and assumptions regarding maintenance downtime, in each case within manufacturers' specifications of capacity.

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### **WHERE YOU CAN FIND MORE INFORMATION**

This prospectus supplement is part of a registration statement on Form S-3 that we have filed with the SEC under the *Securities Act of 1933*, or the *Securities Act*. This prospectus supplement and the accompanying prospectus do not contain all of the information set forth in the registration statement. For further information about us, you should refer to the registration statement. The information included or incorporated by reference in this prospectus supplement and the accompanying prospectus summarizes material provisions of contracts and other documents to which we refer you. Since the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus may not contain all of the information that you may find important, you should review the full text of the documents to which we refer you.

We are subject to the informational requirements of the *Securities Exchange Act of 1934*, as amended, or the *Exchange Act*, and are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including Mercer International Inc., that file electronically with the SEC. You may access the SEC's website at <http://www.sec.gov>.

### **INCORPORATION BY REFERENCE**

The SEC allows us to incorporate by reference information that we file with it into this prospectus supplement, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement. The information incorporated by reference into this prospectus supplement is deemed to be part of this prospectus supplement, and any information filed with the SEC after the date of this prospectus supplement (other than Current Reports or portions thereof furnished under Item 2.02 or Item 7.01 of Form 8-K) will automatically be deemed to update and supersede information contained in this prospectus supplement.

The following documents previously filed with the SEC are incorporated by reference in this prospectus supplement:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, including portions of our Proxy Statement on Schedule 14A for the 2013 annual meeting of our shareholders to the extent specifically incorporated by reference therein;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013; and

our Current Reports on Form 8-K filed on May 8, 2013, June 3, 2013, June 7, 2013, July 10, 2013 and July 17, 2013 (as to Items 8.01 and 9.01 only).

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 are also attached to this prospectus supplement in their entirety in Annexes A and B, respectively.

We incorporate by reference all documents filed pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than any information furnished pursuant to Item 2.02 or 7.01 of any Current Report on Form 8-K) after the date of this prospectus supplement and prior to the termination of the offer.

You should rely only on the information contained or incorporated by reference in this prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus supplement is accurate only as of the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date.

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Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus supplement will be deemed to be modified or superseded for the purposes of this prospectus supplement to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement. Without limitation of the foregoing, any information that is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 or our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, which are attached to this prospectus supplement in their entirety in Annexes A and B, respectively, will be deemed to be modified or superseded for purposes of this prospectus supplement by statements contained in the body of this prospectus supplement.

We will provide promptly without charge to you, upon oral or written request, a copy of any document incorporated by reference in this prospectus supplement, other than exhibits to these documents unless the exhibits are specifically incorporated by reference in these documents. Requests should be directed as follows:

Mercer International Inc.

Suite 1120, 700 West Pender Street

Vancouver, British Columbia

V6C 1G8 Canada

Telephone: (604) 684-1099

Attention: Investor Relations

We also maintain a website at [www.mercerint.com](http://www.mercerint.com). However, the information on our website is not part of this prospectus supplement.

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**NON-GAAP FINANCIAL MEASURES**

This prospectus supplement and the accompanying prospectus contain non-GAAP financial measures that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with the generally accepted accounting principles in the United States, referred to as GAAP. Specifically, we make use of the non-GAAP measure Operating EBITDA.

Operating EBITDA is defined as operating income (loss) plus depreciation and amortization and non-recurring capital asset impairment charges. We use Operating EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider it to be a meaningful supplement to operating income as a performance measure primarily because depreciation expense and non-recurring capital asset impairment charges are not an actual cash cost, and depreciation expense varies widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of our operating facilities. In addition, we believe Operating EBITDA is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

Operating EBITDA does not reflect the impact of a number of items that affect our net income (loss) attributable to common shareholders, including financing costs and the effect of derivative instruments. Operating EBITDA is not a measure of financial performance under GAAP, and should not be considered as an alternative to net income (loss) or income (loss) from operations as a measure of performance, nor as an alternative to net cash from operating activities as a measure of liquidity.

Operating EBITDA has significant limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that Operating EBITDA does not reflect: (i) our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (ii) changes in, or cash requirements for, working capital needs; (iii) the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our outstanding debt; (iv) noncontrolling interests on our Stendal mill operations; (v) the impact of realized or marked to market changes in our derivative positions, which can be substantial; and (vi) the impact of impairment charges against our investments or assets. Because of these limitations, Operating EBITDA should only be considered as a supplemental operational performance measure and should not be considered as a measure of liquidity or cash available to us to invest in the growth of our business. See the Interim Consolidated Statement of Cash Flows set out in our Form 10-Q for the quarter ended March 31, 2013, incorporated by reference herein and attached hereto as Annex B. Because all companies do not calculate Operating EBITDA in the same manner, Operating EBITDA as calculated by us may differ from Operating EBITDA or EBITDA as calculated by other companies. We compensate for these limitations by using Operating EBITDA as a supplemental measure of our operational performance in addition to our GAAP financial statements.

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Our reporting currency and financial statements included in this prospectus supplement are in Euros, as a significant majority of our business transactions are originally denominated in Euros. We translate non-Euro denominated assets and liabilities at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the period.

The following table sets out exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, referred to as the Noon Buying Rate, for the conversion of Euros and Canadian dollars to U.S. dollars in effect at the end of the following periods, the average exchange rates during these periods (based on daily Noon Buying Rates) and the range of high and low exchange rates for these periods:

	2008	Year Ended December 31,			2012	Three Months Ended March 31,	
		2009	2010	2011		2012	2013
			( /\$)			( /\$)	
End of period	0.7184	0.6977	0.7536	0.7708	0.7584	0.7500	0.7803
High for period	0.6246	0.6623	0.6879	0.6723	0.7428	0.7428	0.7304
Low for period	0.8035	0.7970	0.8362	0.7736	0.8290	0.7885	0.7824
Average for period	0.6826	0.7176	0.7541	0.7186	0.7782	0.7623	0.7580
			(C\$/ \$)			(C\$/ \$)	
End of period	1.2240	1.0461	1.0009	1.0168	0.9958	0.9990	1.0174
High for period	0.9717	1.0289	0.9960	0.9448	0.9710	0.9848	0.9839
Low for period	1.2971	1.2995	1.0776	1.0605	1.0417	1.0272	1.0314
Average for period	1.0660	1.1412	1.0298	0.9887	0.9995	1.0009	1.0087

On July 15, 2013, the most recent weekly publication of the Daily Noon Buying Rate before the date of this prospectus supplement reported that the Noon Buying Rate as of July 12, 2013 for the conversion of Euros and Canadian dollars to U.S. dollars was 0.7664 per U.S. dollar and C\$1.0393 per U.S. dollar.

In addition, certain financial information relating to our Celgar mill included in this prospectus supplement is stated in Canadian dollars while we report our financial results in Euros. The following table sets out exchange rates, based on the noon rate provided by the Bank of Canada, referred to as the Daily Noon Rate, for the conversion of Canadian dollars to Euros in effect at the end of the following periods, the average exchange rates during these periods (based on Daily Noon Rates) and the range of high and low exchange rates for these periods:

	2008	Year Ended December 31,			2012	Three Months Ended March 31,	
		2009	2010	2011		2012	2013
			(C\$/ )			(C\$/ )	
End of period	1.7046	1.5000	1.3319	1.3193	1.3118	1.3322	1.3042
High for period	1.4489	1.4936	1.2478	1.2847	1.2153	1.2890	1.2859
Low for period	1.7316	1.6920	1.5067	1.4305	1.3446	1.3446	1.3673
Average for period	1.5603	1.5851	1.3671	1.3761	1.2850	1.3129	1.3319

On July 17, 2013, the Daily Noon Rate for the conversion of Canadian dollars to Euros was C\$1.3650 per Euro.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus as well as the documents we have filed with the SEC that are incorporated by reference herein and therein contain forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Generally, forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning, or future conditional verbs, such as will, should, could, or may, although not all forward-looking statements contain these identifying words.

There are a number of important factors, many of which are beyond our control that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. These factors include, but are not limited to, the following:

the highly cyclical nature of our business;

our level of indebtedness could negatively impact our financial condition and results of operations;

any noncompliance with the financial ratios in our credit facilities and the outcome of negotiations with lenders in respect thereof;

we may not be able to obtain a waiver of the Ratios or a satisfactory amendment to the Stendal mill's loan facilities;

a weakening of the global economy could adversely affect our business and financial results and have a material adverse effect on our liquidity and capital resources;

cyclical fluctuations in the price and supply of our raw materials could adversely affect our business;

we operate in highly competitive markets;

we are exposed to currency exchange rate and interest rate fluctuations;

we use derivatives to manage certain risks which has caused significant fluctuations in our operating results;

we are subject to extensive environmental regulation and we could have environmental liabilities at our facilities;

our business is subject to risks associated with climate change and social government responses thereto;

our operations require substantial capital and we may be unable to maintain adequate capital resources to provide for such requirements;

future acquisitions may result in additional risks and uncertainties in our business;

changes in credit ratings issued by nationally recognized statistical rating organizations could adversely affect our cost of financing and have an adverse effect on the market price of our securities;

Project Blue Mill might not generate the results we expect;

the actual timing, costs and benefits of the Celgar workforce reduction may differ from those currently expected;

we are subject to risks related to our employees;

we rely on German federal and state government grants and guarantees and participate in European statutory programs;

we are dependent on key personnel;

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we may experience material disruptions to our production (including as a result of, among other things, planned and unplanned maintenance shutdowns);

if our long-lived assets become impaired, we may be required to record non-cash impairment that could have a material impact on our results of operations;

we may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks or natural disasters;

our insurance coverage may not be adequate;

we rely on third parties for transportation services; and

the price of our common stock may be volatile.

Given these uncertainties, you should not place undue reliance on our forward-looking statements. You should read this prospectus supplement and the documents incorporated by reference herein with the understanding that our actual future results may be materially different from what we expect. The foregoing review of important factors is not exhaustive or necessarily in order of importance and should be read in conjunction with the other cautionary statements that are included in or incorporated by reference into this prospectus supplement. These factors expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. New factors emerge from time to time, and it is not possible for us to predict all such factors. Except as required by law, we do not undertake any obligation to update or revise any forward-looking statements contained in or incorporated by reference in this prospectus supplement whether as a result of new information, future events or otherwise.

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**SUMMARY**

*This summary highlights certain information contained elsewhere in this prospectus supplement. Because it is a summary, it is not complete and does not contain all the information you will need to make your investment decision. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including the section entitled "Risk Factors", our financial statements and the notes thereto and the documents incorporated by reference into this prospectus supplement, before deciding to invest. See "Where You Can Find More Information".*

**Mercer International Inc.**

We operate in the pulp business and are among the largest publicly traded producers of market northern bleached softwood kraft, or NBSK, pulp in the world. Mercer Inc. reorganized as a company under the laws of the State of Washington in 2006 from a Washington business trust. Its common stock is quoted and listed for trading on the NASDAQ Global Market (MERC) and the Toronto Stock Exchange (MRI.U).

We are the sole NBSK producer, and the only significant producer of pulp for resale, known as market pulp, in Germany, which is the largest pulp import market in Europe. We also generate and sell a significant amount of surplus green energy to regional utilities. Our operations are located in Eastern Germany and Western Canada. We currently employ approximately 1,500 people. We operate three NBSK pulp mills with a consolidated annual production capacity of approximately 1.5 million ADMTs of NBSK pulp and 259 MW of electrical generation:

**Rosenthal mill.** Our wholly-owned subsidiary, Rosenthal, owns and operates the Rosenthal mill, a modern, efficient ISO 9001, 14001 and 50001 certified NBSK pulp mill that has an annual production capacity of approximately 355,000 ADMTs and 57 MW of electrical generation. The Rosenthal mill generated and exported 169,613 MWh of electricity in 2012, resulting in approximately 15.1 million in annual revenues. The Rosenthal mill is located in the town of Blankenstein, Germany, approximately 300 kilometers south of Berlin.

**Celgar mill.** Our wholly-owned subsidiary, Celgar, owns and operates the Celgar mill, a modern, efficient ISO 9001 and 14001 certified NBSK pulp mill with an annual production capacity of approximately 520,000 ADMTs and 100 MW of electrical generation. The Celgar mill generated and exported 171,994 MWh of electricity in 2012, resulting in approximately C\$17.2 million in annual revenues. The Celgar mill is located near the city of Castlegar, British Columbia, Canada, approximately 600 kilometers east of Vancouver, British Columbia, Canada.

**Stendal mill.** Our 74.9% owned subsidiary, Stendal, owns and operates the Stendal mill, a state-of-the-art, single-line, ISO 9001 and 14001 certified NBSK pulp mill that has an annual production capacity of approximately 650,000 ADMTs and 102 MW of electrical generation. The Stendal mill generated and exported 368,634 MWh of electricity in 2012, resulting in approximately 32.2 million in annual revenues. The Stendal mill is located near the town of Stendal, Germany, approximately 130 kilometers west of Berlin.

**The Restricted Group**

The Indenture provides for restrictions and covenants that are principally only applicable to Mercer Inc. and our restricted subsidiaries as defined under such Indenture, referred to as the Restricted Group. The Restricted Group is comprised of Mercer Inc., our Rosenthal and Celgar mills and certain subsidiaries, but excludes our Stendal mill. The indebtedness of Stendal is without recourse to the Restricted Group and vice versa.

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The following chart sets out our directly and indirectly owned principal operating subsidiaries, their jurisdictions of organization and their principal activities:

### **Our Competitive Strengths**

Our competitive strengths include the following:

***Modern and Competitive Mills.*** We operate three large, modern, competitive NBSK pulp mills that produce high quality NBSK pulp, which is a premium grade of kraft pulp. We believe the relative age, production capacity and electrical generation capacity of our mills provide us with certain manufacturing cost and other advantages over many of our competitors.

***Stable Income Source from the Sale of Surplus Renewable Energy and Chemicals.*** Our modern mills generate electricity and steam in their boilers which is surplus to their operating requirements. Such energy is primarily produced from wood residuals which are a renewable carbon neutral source. All of our mills also generate and sell surplus energy to regional utilities. Our German mills benefit from special tariffs under Germany's *Renewable Energy Resources Act*, referred to as the *Renewable Energy Act*, which provides for premium pricing. Our Celgar mill is party to a fixed electricity purchase agreement, referred to as the *Electricity Purchase Agreement*, with the regional public utility provider for the sale of surplus power. Our Stendal mill also produces tall oil as a by-product which is sold to third parties. In total, our mills produced 710,241 MWh of surplus renewable energy in 2012 and generated approximately 72.3 million in revenues from energy and chemical sales. These sales provide us with a stable income unrelated to cyclical changes in pulp prices. We believe our generation and sale of surplus renewable green energy and chemicals provides us with a competitive energy advantage over less efficient mills.

***Leading Market Position.*** We are among the largest publicly traded NBSK market pulp producers in the world, which provides us increased presence and better industry information in the markets in which we operate and provides for close customer relationships with many large pulp consumers.

***Strategic Locations and Customer Service.*** We are the only significant producer of market pulp in Germany, which is the largest pulp import market in Europe. Due to the proximity of our German mills to most of our European customers, we benefit from lower transportation costs relative to our major competitors. Our Celgar mill, located in Western Canada, is well situated to serve Asian and North American customers. We primarily work directly with customers to capitalize on our geographic diversity, coordinate sales and enhance customer relationships. We believe our ability to deliver high quality pulp on a timely basis and our customer service make us a preferred supplier for many customers.

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***Advantageous Capital Investments and Financing.*** Our German mills are eligible to receive government grants in respect of qualifying capital investments. Over the last 13 years, our German mills have benefited from approximately 386.3 million of such government grants. In addition, our Celgar mill received approximately C\$57.7 million of grants under the Canadian government's Pulp and Paper Green Transformation Program, referred to as the GTP, to fund the Celgar energy project and other smaller projects. All such grants reduce the cost basis of the assets purchased when the grants are received and are not reported in our income. Additionally, during the last ten years, capital investments at our German mills have reduced the amount of overall wastewater fees that would otherwise be payable by over 52.7 million. Further, our Stendal mill benefits from German governmental guarantees of its project financing, which permitted it to obtain better credit terms and lower interest costs than would otherwise have been available. The project debt of Stendal, which matures in 2017, currently bears interest at a substantially fixed rate of 5.28% per annum plus an applicable margin and is non-recourse to our other operations and Mercer Inc.

***Proximity of Abundant Fiber Supply.*** Although fiber is cyclical in both price and supply, there is a significant amount of high-quality fiber within a close radius of each of our mills. This fiber supply, combined with our purchasing power and our current ability to meaningfully switch between whole logs chipped at our mills and sawmill residual chips, enables us to enter into contracts and arrangements which have generally provided us with a competitive fiber supply.

***Experienced Management Team.*** Our directors and senior managers have extensive experience in the pulp and forestry industries. We also have experienced managers at all of our mills. Our management has a proven track record of implementing new initiatives and capital projects in order to reduce costs throughout our operations as well as identifying and harnessing new revenue opportunities.

### **Corporate Strategy**

Our corporate strategy is to create shareholder value by focusing on the expansion of our asset and earnings base through organic growth and acquisitions, primarily in Europe and North America. We pursue organic growth through active management and targeted capital expenditures to generate a high return by increasing pulp and energy production, reducing costs and improving efficiency. We seek to acquire interests in companies and assets in the pulp industry and related businesses where we can leverage our experience and expertise in adding value through a focused management approach. Key features of our strategy include:

***Maximizing Returns from our Modern, World-Class Mills.*** We operate three large modern pulp mills as we believe these production facilities provide us with the best platform to be an efficient and competitive producer of high-quality NBSK pulp without the need for significant sustaining capital. We seek to make high return capital investments that increase the production and operation efficiency of the mills, reduce costs and improve product quality. We also seek to reduce operating costs by better managing certain operating activities such as fiber procurement, sales, marketing and logistics activities. We focus on increasing the production and operating efficiency of our mills through cost reductions, including targeted capital investments.

***Reducing Volatility and Increasing the Stability of our Revenues by Maximizing Renewable Energy Realizations.*** We focus on the generation and sales of surplus renewable energy because there are minimal associated incremental costs and such sales are highly profitable and provide us with a stable income source unrelated to cyclical changes in pulp prices. In 2012, our mills sold a record 710,241 MWh of surplus electricity resulting in revenues of approximately 60.6 million, compared to 652,113 MWh and approximately 58.0 million in revenues in 2011. In 2012, we commenced Project Blue Mill to increase production and efficiency through debottlenecking initiatives and the installation of a 40 MW steam turbine at our Stendal mill. The new turbine is expected to initially produce an additional 109,000 MWh of surplus electricity. Based upon the current production levels of our mills, we expect

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to sell in excess of 740,000 MWh of surplus renewable energy in 2013. We continually explore and pursue initiatives to enhance our energy generation and sales in order to reduce volatility and increase our revenues from a stable source.

***NBSK Market Pulp.*** We produce NBSK pulp because it is a premium grade kraft pulp and generally obtains the highest price relative to other kraft pulps. Although demand is cyclical, between 2003 and 2012 overall worldwide demand for softwood kraft market pulp grew at an average of approximately 2.0% per annum. We focus on customers that produce tissue, specialty papers and high quality printing and writing paper grades. We believe the growth in demand from tissue and specifically paper customers, which utilize a significant proportion of NBSK pulp, has more than offset the secular decline in demand from printing and writing paper customers. This allows us to benefit from our long-term relationships with tissue and paper manufacturers in Europe and participate in strong growth markets in emerging countries such as China where there has been strong growth in tissue demand.

***Strategic Opportunities.*** We believe there will be continuing change and consolidation in the pulp and paper industry as industry participants continually seek to lower costs, refocus their product lines and react to ever changing global market conditions. We take an opportunistic approach to opportunities that can expand our earnings or grow our business.

## **Recent Developments**

### *Second Quarter Performance*

During the second quarter of 2013, our Celgar mill took its annual scheduled major maintenance shutdown. As a result of a combination of a lightning strike at the mill and equipment and execution issues, the shutdown which was planned for 11 days took 15 days instead. Further, the start-up of the mill was slower than budgeted. The shutdown and slower start-up resulted in a loss of approximately 30,300 ADMTs of NBSK pulp production (of which approximately 14,300 ADMTs was unplanned) and a consequential loss of energy production. We estimate that the Celgar mill's shutdown will have an overall negative impact of approximately \$11 million to our consolidated and Restricted Group operating income in our second quarter of 2013 results, compared to our first quarter 2013 results. Other than the negative effect of such shutdown, although we are still closing our books and actual reported results may differ (and such differences could be material), we expect our second quarter 2013 GAAP net results and our Operating EBITDA to be largely in line with our prior quarter consolidated and Restricted Group results. We are currently not able to reconcile our expected Operating EBITDA with our expected GAAP results.

We believe the issues with this recent shutdown were isolated and the Celgar mill is performing well and operating at pre-shutdown levels. We believe our inventory levels are adequate and anticipate no material customer issues from this event.

### *Workforce Reduction at Celgar Mill*

On July 9, 2013, we announced that, after conducting a comprehensive assessment, our Celgar mill intends to reduce its workforce in order to improve its competitiveness with other pulp producers. This action is being taken to make a substantial reduction in the mill's fixed costs by bringing personnel levels more in line with other mills operating safely and productively around the world. The planned reduction will affect both hourly and salaried employees. The workforce reduction is expected to involve approximately 85 employees, with the majority of employees leaving the mill over the next 12 months.

In connection with implementing this workforce reduction, we currently estimate that we will incur pre-tax charges in the range of approximately \$6 million to \$8 million for severance and other personnel related expenses, such as termination benefits, which are expected to occur primarily over the 12-month period commencing with the third quarter of 2013. More than 85% of such charges are expected to be recognized by the end of 2013.



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We currently estimate that our Celgar mill will realize approximately \$8 million to \$10 million in annual pre-tax cost savings once the workforce restructuring has been fully implemented. Based upon our planned workforce reduction implementation schedule, we currently expect to realize approximately 80% of such annual cost savings in 2014.

Costs and savings associated with the Celgar mill workforce reduction are based on management's best estimates. Although we do not anticipate significant changes, actual costs and benefits may differ from these estimates due to subsequent business developments. As such, additional costs may be incurred and anticipated benefits may not be realized. See *Risk Factors*. The actual timing, costs and benefits of the Celgar mill workforce reduction may differ from those currently expected.

### *Stendal Credit Facilities*

Our Stendal mill has two amortizing term loan facilities with approximately \$442.9 million in total principal outstanding at March 31, 2013. Such facilities are without recourse to the Restricted Group and 80% of the principal amount thereunder is severally guaranteed by German federal and state governments. These facilities require the Stendal mill, among other things, to maintain a stipulated semi-annual leverage ratio of total debt to trailing 12-month EBITDA (as defined in the facilities) and a Senior Debt to EBITDA Cover Ratio, referred to as the *Ratios*. See *Description of Other Indebtedness*.

Pursuant to the terms of Stendal's loan facilities, the Stendal mill is required to report on its compliance with the *Ratios* on September 30, 2013 for the trailing 12-month period ended June 30, 2013.

Among other factors, volatility in foreign exchange rates and pulp prices and the *Ratios* becoming more restrictive over time have adversely affected the Stendal mill's performance relative to satisfying the *Ratios*. Unless we are able to obtain a waiver of the *Ratios* or a satisfactory amendment to the loan facilities with Stendal's lenders, when the Stendal mill reports under its loan facilities on September 30, 2013, it will not be in compliance with the *Ratios*.

We have the right to cure any breach of the *Ratios* by providing additional capital to Stendal within 20 business days of being notified of such breach by the lenders.

We have had ongoing discussions with the agent bank under the Stendal loan facilities to obtain a satisfactory amendment and/or waiver of the *Ratios* to provide greater flexibility for the Stendal mill.

On June 26, 2013, Stendal and the agent bank for the lenders agreed upon a non-binding term sheet which will provide the mill with greater covenant flexibility and the mill engaged the agent bank pursuant to a mandate agreement to seek lender approval to implement the same. The term sheet is subject to customary conditions and approvals, including lender approval, German governmental approval, our board approval, Stendal shareholder approval and entering into satisfactory definitive legal agreements. Pursuant to the term sheet, concurrent with a successful amendment of the facilities thereunder, we have agreed to invest \$20.0 million into Stendal (an Unrestricted Subsidiary) as additional capital. Currently, based upon our discussions with the agent bank to date, the limited nature of the requested amendment, the Stendal mill's current liquidity (cash on hand, as at March 31, 2013 of \$59 million, of which \$33 million is in a segregated debt service reserve account) and the governmental guarantees, we believe we will be able to conclude a satisfactory amendment with Stendal's lenders in the third quarter of 2013; however, we cannot assure you of a successful outcome.

In the event that the Stendal mill is not able to secure a satisfactory amendment and/or waiver of the *Ratios* and we do not cure the breach by providing additional capital to Stendal, it would constitute an event of default under the two loan facilities. If such event of default occurs and after careful consideration of the reasonable concerns of Stendal or if the stipulated majority of the lenders have reasonably determined that such default has

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caused Stendal's ability to perform its obligations thereunder to be materially impaired, the lenders may provide notice cancelling and accelerating such facilities and demanding full payment thereof. In the current circumstances, we do not believe Stendal's lenders would be permitted to accelerate and cancel such loan facilities based upon a failure to satisfy the Ratios; however, we cannot assure you of the same.

If Stendal's lenders did accelerate and cancel such loan facilities, this would have a material adverse effect on the Stendal mill and our consolidated financial condition, results of operations and liquidity.

**Corporate Information**

Our principal office is located at Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada V6C 1G8. Our main telephone number is (604) 684-1099 and our website address is [www.mercerint.com](http://www.mercerint.com). Information on our website is not incorporated by reference in this prospectus supplement and should not be considered in connection with any investment in the Additional Senior Notes offered hereby.

**Table of Contents****The Offering**

*The following is a brief summary of certain terms of this offering. Certain of the terms and conditions described below are subject to important limitations and exceptions. You should read this prospectus supplement and the accompanying prospectus before making an investment in the Additional Senior Notes. For a more complete description of the terms of the Senior Notes see *Description of Notes* in this prospectus supplement and *Description of Debt Securities* in the accompanying prospectus.*

Issuer	Mercer International Inc.
Securities Offered	\$50,000,000 aggregate principal amount of 9.5% Senior Notes due 2017. The Additional Senior Notes will be issued as additional notes under the Indenture governing our outstanding 9.5% Senior Notes due 2017 that were issued in November 2010 in an aggregate principal amount of \$300,000,000.
Offering Price	104.500% of the principal amount of the Senior Notes, plus accrued interest from June 1, 2013.
Maturity	December 1, 2017.
Interest Payment Dates	June 1 and December 1 of each year, beginning on December 1, 2013 (or if any of those days is not a business day, the next succeeding business day without accrual of additional interest as a result of the delay in payment). Interest on the Additional Senior Notes will accrue from the most recent interest payment date, being June 1, 2013.
Ranking	<p>The Additional Senior Notes are our senior unsecured obligations and are not guaranteed by any of our operating subsidiaries, all of which are located outside the U.S. Accordingly, the Additional Senior Notes will rank:</p> <ul style="list-style-type: none"> <li>effectively junior in right of payment to all our existing and future secured indebtedness and all indebtedness and liabilities of our subsidiaries; and</li> <li>equal in right of payment with all of our existing and future unsecured senior indebtedness.</li> </ul>

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Optional Redemption

The Senior Notes will be redeemable on and after December 1, 2014 at any time in whole or in part, at our option on not less than 30 and not more than 60 days' prior notice, at the applicable redemption prices described under Description of Notes - Optional Redemption plus accrued and unpaid interest, if any, to the date of redemption. In certain circumstances, we may also redeem up to 35% of the aggregate principal amount of the Senior Notes at any time prior to December 1, 2013 at a redemption price of 109.5% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date with the net proceeds of certain equity offerings.

Certain Covenants

We will issue the Additional Senior Notes under the Indenture that governs the Existing Senior Notes, which, among other things, restricts our ability and the ability of our restricted subsidiaries to, among other things:

- incur additional indebtedness or issue preferred stock;
- pay dividends or make other distributions to our stockholders;
- purchase or redeem capital stock or subordinated indebtedness;
- make investments;
- create liens and enter into sale and leaseback transactions;
- incur restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us;
- sell assets;
- consolidate or merge with or into other companies or transfer all or substantially all of our assets; and
- engage in transactions with affiliates.

These limitations will be subject to a number of important qualifications and exceptions. See Description of Notes - Covenants .

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Change in Control	<p>Upon certain changes in control, each holder of the Senior Notes may require us to repurchase some or all of its Senior Notes at a purchase price equal to 101% of the principal amount of the Senior Notes plus accrued and unpaid interest, if any, to the date of purchase. See <a href="#">Description of Notes</a> <a href="#">Purchase of Notes at the Option of Holders Upon a Change in Control</a> .</p>
No Active Trading Market	<p>The Additional Senior Notes will be fungible with the Existing Senior Notes for trading purposes from the time of issue, but there is no active trading market for the Existing Senior Notes. The underwriter has advised us that it presently intends to make a market in the Additional Senior Notes. However, you should be aware that it is not obligated to make a market in the Additional Senior Notes and may discontinue its market-making activities at any time without notice. As a result, a liquid market for the Additional Senior Notes may not be available if you try to sell your Additional Senior Notes. We do not intend to apply for a listing of the Additional Senior Notes on any securities exchange or any automated dealer quotation system.</p>
Form of the Additional Senior Notes	<p>The Additional Senior Notes, in common with the Existing Senior Notes and having the same CUSIP numbers, will be issued in book-entry form and will be represented by one or more global securities deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, referred to as <a href="#">DTC</a> , in New York, New York. Beneficial interests in the Additional Senior Notes will be shown on, and transfers of beneficial interests will be effected through, records maintained by DTC and its participants.</p>
Use of Proceeds	<p>We estimate that the net proceeds from this offering will be approximately \$50.5 million. We intend to use the net proceeds to repay revolving credit indebtedness and for general corporate purposes. See <a href="#">Use of Proceeds</a> .</p>
Risk Factors	<p>See <a href="#">Risk Factors</a> and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should consider carefully before deciding to invest in the Additional Senior Notes.</p>

**Table of Contents****Summary Financial and Operating Information for the Restricted Group**

The following table sets forth selected historical financial and operating data for the Restricted Group as at and for the periods indicated. The following selected data are qualified in their entirety by, and should be read in conjunction with, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited financial statements and the accompanying notes in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, each of which is incorporated by reference herein and attached hereto as Annex A and Annex B, respectively. For financial and other data for the Restricted Group for the quarter ended March 31, 2013 and the comparative quarter of the prior year, please refer to the quarterly financial information included elsewhere herein and our Form 10-Q for the period ended March 31, 2013 incorporated by reference herein and attached hereto as Annex B. Historical results are not necessarily indicative of the results to be expected for any future periods.

The statements of operations data for the Restricted Group for the twelve months ended March 31, 2013 have been derived by adding the financial data from our audited financial statements for the year ended December 31, 2012 to the financial data from our unaudited financial statements for the three months ended March 31, 2013 and subtracting the financial data from our unaudited financial statements for the three months ended March 31, 2012.

	Twelve Months			Three Months		
	Ended March 31, 2013 (Unaudited)	Ended March 31, 2013 (Unaudited)	2012	Year Ended December 31, 2012	2011	2010
(Euro in thousands, other than ADMT and MWh amounts and ratios)						
<b>Statement of Operations Data</b>						
Pulp revenues	414,294	100,240	109,889	423,943	473,992	490,020
Energy and chemical revenues	27,588	7,090	7,991	28,489	25,473	15,145
	441,882	107,330	117,880	452,432	499,465	505,165
Costs and expenses	435,734	103,430	112,497	444,801	436,522	411,474
Operating income	6,148	3,900	5,383	7,631	62,943	93,691
Interest expense	23,481	5,866	5,810	23,425	24,886	31,498
Other income	5,818	1,535	825	5,108	5,262	5,103
Net income (loss)	(15,696)	(1,792)	(317)	(14,221)	39,809	62,327
<b>Balance Sheet Data</b>						
Cash and cash equivalents	52,032	52,032	53,595	36,714	44,829	50,654
Current assets	201,073	201,073	206,596	180,711	201,632	211,839
Current liabilities	65,329	65,329	56,955	48,581	51,659	61,172
Working capital	135,744	135,744	149,641	132,130	149,973	150,667
Total assets <sup>(1)</sup>	661,657	661,657	665,460	644,119	658,844	662,944
Long-term liabilities	266,151	266,151	261,169	260,185	262,770	312,631
Total equity	330,177	330,177	347,336	335,353	344,415	289,141
<b>Other Data</b>						
Pulp production (ADMTs)	814,907	205,550	218,620	827,977	832,396	826,301
Pulp sales (ADMTs)	812,774	199,325	213,472	826,921	823,183	826,340
Average pulp sales realizations ( /ADMT <sup>(2)</sup> )	510	503	514	512	575	592
Energy production ( 000 MWh)	920.2	230.4	240.2	930.1	893.7	718.6
Energy sales ( 000 MWh)	332.8	79.9	88.8	341.6	301.4	194.2
Average energy sales realizations ( /MWh)	83	89	90	83	85	78
Net cash from (used in) operating activities	(290)	12,243	9,943	(2,590)	66,679	54,581
Depreciation and amortization	32,022	8,254	7,703	31,471	30,086	30,270
Capital expenditures	20,364	2,645	4,218	21,937	29,513	34,675
Operating EBITDA <sup>(3)</sup>	38,170	12,154	13,086	39,102	93,029	123,961
Ratio of earnings to fixed charges <sup>(4)</sup>	0.58	0.87	1.07	0.63	2.79	2.67



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- (1) We do not report the effect of government grants relating to our assets in our income. These grants reduce the cost basis of the assets purchased. See [Business Capital Expenditures](#) .
- (2) Average realized pulp prices for the periods indicated reflect customer discounts and price movements between the order and shipment date.
- (3) See [Non-GAAP Financial Measures](#) for a description of Operating EBITDA. The following table provides for a reconciliation of net income (loss) to operating income (loss) and Operating EBITDA for the Restricted Group for the periods indicated:

	Twelve Months	Three Months		Year Ended December 31,		
	Ended March 31, 2013 (Unaudited)	Ended March 31, 2013 (Unaudited)	2012	2012	2011	2010
	(Euro in thousands)					
<b>Restricted Group</b>						
Net income (loss)	(15,696)	(1,792)	(317)	(14,221)	39,809	62,327
Income tax provision (benefit)	5,783	1,016	715	5,482	4,614	(8,651)
Interest expense	23,481	5,866	5,810	23,425	24,886	31,498
Loss (gain) on derivative instruments	(1,683)	345		(2,028)		
Foreign exchange (gain) loss on debt					(1,175)	6,126
Loss on extinguishment of debt	81			81	71	7,494
Other expense (income)	(5,818)	(1,535)	(825)	(5,108)	(5,262)	(5,103)
Operating income	6,148	3,900	5,383	7,631	62,943	93,691
Add: Depreciation and amortization	32,022	8,254	7,703	31,471	30,086	30,270
Operating EBITDA	38,170	12,154	13,086	39,102	93,029	123,961

- (4) For the purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes, noncontrolling interest, income (loss) from equity investee and fixed charges. Fixed charges consist of interest expense plus capitalized interest. See [Ratio of Earnings to Fixed Charges](#) .



**Table of Contents****Summary Consolidated Financial and Operating Information**

The following table sets forth selected historical consolidated financial and operating data as at and for the periods indicated. The following selected data are qualified in their entirety by, and should be read in conjunction with, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements and the accompanying notes in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, each of which is incorporated by reference herein and attached hereto as Annex A and Annex B, respectively. For financial and other data for the quarter ended March 31, 2013 and the comparative quarter of the prior year, please refer to the quarterly financial information included elsewhere herein and our Form 10-Q for the period ended March 31, 2013 incorporated by reference herein and attached hereto as Annex B. Historical results are not necessarily indicative of the results to be expected for any future periods.

The consolidated statements of operations data for the twelve months ended March 31, 2013 have been derived by adding the financial data from our audited financial statements for the year ended December 31, 2012 to the financial data from our unaudited financial statements for the three months ended March 31, 2013 and subtracting the financial data from our unaudited financial statements for the three months ended March 31, 2012.

	Twelve Months Ended March 31, 2013 (Unaudited)	Three Months Ended March 31, 2013 (Unaudited)	2012	Year Ended December 31, 2012      2011      2010		
	(Euro in thousands, other than ADMT and MWh amounts and ratios)					
<b>Statement of Operations Data</b>						
Pulp revenues	742,535	180,120	199,439	761,854	831,396	856,311
Energy and chemical revenues	71,522	18,152	18,919	72,289	68,079	49,288
	814,057	198,272	218,358	834,143	899,475	905,599
Costs and expenses	771,747	188,724	202,115	785,138	788,356	737,856
Operating income	42,310	9,548	16,243	49,005	111,119	167,743
Interest expense	54,820	13,148	14,133	55,805	58,995	67,621
Other income (expense)	282	(70)	(410)	(58)	1,501	468
Net income (loss) attributable to common shareholders	(13,783)	(425)	1,173	(12,185)	50,075	86,279
<b>Balance Sheet Data</b>						
Cash and cash equivalents	110,664	110,664	124,196	104,239	105,072	99,022
Current assets	355,875	355,875	375,608	344,998	373,226	356,880
Current liabilities	153,544	153,544	137,562	136,425	126,067	125,197
Working capital	202,331	202,331	238,046	208,573	247,159	231,683
Total assets <sup>(1)</sup>	1,185,560	1,185,560	1,213,199	1,183,603	1,217,250	1,216,075
Long-term liabilities	756,192	756,192	787,013	768,253	807,641	877,315
Total equity	275,824	275,824	288,624	278,925	283,542	213,563
<b>Other Data</b>						
Pulp production (ADMTs)	1,449,097	361,164	380,342	1,468,275	1,453,677	1,426,286
Pulp sales (ADMTs)	1,445,353	356,660	384,826	1,473,519	1,427,924	1,428,638
Average pulp sales realizations ( /ADMT <sup>(2)</sup> )	507	499	512	511	574	591
Energy production ( 000 MWh)	1,692.2	424.4	436.2	1,704.1	1,640.4	1,444.1
Energy sales ( 000 MWh)	701.5	173.6	182.4	710.2	652.1	520.0
Average energy sales realizations ( /MWh)	85	88	88	85	89	85
Net cash from (used in) operating activities	31,784	21,948	36,137	45,973	111,055	91,279
Depreciation and amortization	58,496	14,794	14,350	58,052	56,005	56,231
Capital expenditures	39,634	11,395	8,465	36,704	37,809	38,300
Operating EBITDA <sup>(3)</sup>	100,806	24,342	30,593	107,057	167,124	223,974
Ratio of earnings to fixed charges <sup>(4)</sup>	0.93	1.10	1.20	0.96	1.92	2.31



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- (1) We do not report the effect of government grants relating to our assets in our income. These grants reduce the cost basis of the assets purchased. See **Business Capital Expenditures** .
- (2) Average realized pulp prices for the periods indicated reflect customer discounts and price movements between the order and shipment date.
- (3) See **Non-GAAP Financial Measures** for a description of Operating EBITDA. The following table provides for a reconciliation of net income (loss) to operating income (loss) and Operating EBITDA on a consolidated basis for the periods indicated:

	<b>Twelve Months Ended March 31, 2013 (Unaudited)</b>	<b>Three Months Ended March 31, 2013    2012 (Unaudited)</b>		<b>Year Ended December 31, 2012    2011    2010</b>		
	<b>(Euro in thousands)</b>					
Net income (loss) attributable to common shareholders	(13,783)	(425)	1,173	(12,185)	50,075	86,279
Net income attributable to noncontrolling interest	1,731	708	671	1,694	3,931	8,469
Income tax provision (benefit)	7,428	867	732	7,293	(695)	(5,879)
Interest expense	54,820	13,148	14,133	55,805	58,995	67,621
Loss (gain) on derivative instruments	(7,685)	(4,820)	(876)	(3,741)	1,418	(1,899)
Foreign exchange (gain) loss on debt					(1,175)	6,126
Loss on extinguishment of debt	81			81	71	7,494
Other expense (income)	(282)	70	410	58	(1,501)	(468)
<b>Operating income</b>	<b>42,310</b>	<b>9,548</b>	<b>16,243</b>	<b>49,005</b>	<b>111,119</b>	<b>167,743</b>
Add: Depreciation and amortization	58,496	14,794	14,350	58,052	56,005	56,231
<b>Operating EBITDA</b>	<b>100,806</b>	<b>24,342</b>	<b>30,593</b>	<b>107,057</b>	<b>167,124</b>	<b>223,974</b>

- (4) For the purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes, noncontrolling interest, income (loss) from equity investee and fixed charges. Fixed charges consist of interest expense plus capitalized interest. See **Ratio of Earnings to Fixed Charges** .

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**RISK FACTORS**

*An investment in the Senior Notes involves risks. You should carefully consider the risks described below and those contained in the documents incorporated by reference in this prospectus supplement and the other information in this prospectus supplement, the accompanying prospectus, and the documents incorporated by reference into this prospectus supplement before deciding whether to invest in the Senior Notes. The risks described below are not the only risks facing our Company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.*

*Our business, financial condition, results of operations and cash flow, could be materially adversely affected by any of these risks. The trading price of the Senior Notes could decline due to any of these risks, and you may lose all or part of your investment.*

*This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus supplement or incorporated by reference herein.*

**Risks Related to this Offering**

***We are a holding company and we are substantially dependent on cash provided by our subsidiaries to meet our debt service obligations under the Senior Notes.***

We are a holding company that conducts substantially all of our operations through our subsidiaries. Because we are a holding company and because the Senior Notes are not guaranteed by any of our subsidiaries, the Senior Notes are effectively subordinated to all existing and future indebtedness and other liabilities of our subsidiaries. As of March 31, 2013, the aggregate outstanding liabilities of all our subsidiaries, including the non-recourse debt of Stendal, was approximately 680.9 million, excluding intercompany amounts and including a total of approximately 491.8 million of indebtedness for borrowed money, of which approximately 480.0 million is related to Stendal. Additionally, as at March 31, 2013, our Restricted Group had aggregate outstanding liabilities of approximately 331.5 million, including approximately 233.3 million of indebtedness for borrowed money.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have not guaranteed the Senior Notes and have no obligation to pay any amounts due on the Senior Notes. With limited exceptions, our subsidiaries are not required to provide us with funds for our payment obligations, whether by dividends, distributions or loans. In addition, payments of dividends, distributions, loans or advances by our subsidiaries to Mercer Inc. are subject to certain contractual restrictions. The loan facilities of our subsidiaries do not contain any express provisions to permit distributions for debt servicing by Mercer Inc. Payments to Mercer Inc. by our subsidiaries will also be contingent upon our subsidiaries earnings and other business considerations.

***The Senior Notes are effectively subordinated to all liabilities of our subsidiaries and are unsecured. We may not have sufficient funds to pay our obligations under the Senior Notes if we encounter financial difficulties.***

The Senior Notes are not guaranteed and our subsidiaries have no obligations in respect of the Senior Notes. As a result, the Senior Notes are effectively subordinated to all liabilities of our subsidiaries. In the event of a bankruptcy, liquidation or reorganization involving us or any of our subsidiaries and in certain other events, our assets will be available to pay obligations on the Senior Notes only after all liabilities of our subsidiaries (including trade creditors) have been paid in full. After satisfying these obligations, we may not have sufficient assets remaining to pay amounts due on any or all of the Senior Notes then outstanding. Our incurrence of additional debt and other liabilities could adversely affect our ability to pay our obligations under the Senior Notes.

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*Despite our and our subsidiaries' current levels of indebtedness, we may incur substantially more debt, which could further increase the risks associated with our substantial indebtedness.*

Although the Indenture and our existing credit facilities contain restrictions on the incurrence of additional indebtedness by us and our restricted subsidiaries, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. In addition to amounts that may be borrowed under our existing credit facilities, the Indenture also allows us and our restricted subsidiaries to borrow significant amounts of money from other sources and does not place restrictions on borrowings by our unrestricted subsidiaries. Also, these restrictions do not prevent us from incurring obligations that do not constitute indebtedness as defined in the relevant agreement. If new debt is added to the current debt levels, the related risks that we now face could intensify.

*The agreements governing our indebtedness contain significant restrictions that limit our operating and financial flexibility.*

The Indenture and our credit facilities contain covenants that, among other things, limit our ability to:

incur additional indebtedness and issue preferred stock;

pay dividends and make distributions;

repurchase stock or repay subordinated indebtedness;

make certain investments;

transfer, sell or make certain dispositions of assets or engage in sale and leaseback transactions;

incur liens;

enter into transactions with affiliates;

create dividend or other payment restrictions affecting restricted subsidiaries; and

merge, consolidate, amalgamate or sell all or substantially all of our assets to another person.

In addition, our credit facilities require us to maintain specified financial ratios, and we may be unable to meet such ratios. All of these restrictions may limit our ability to execute our business strategy. Moreover, if operating results fall below current levels, we may be unable to comply with these covenants. If that occurs, our lenders could accelerate our indebtedness, in which case we may not be able to repay all of our indebtedness, and your Senior Notes may not be repaid fully, if at all. Unless we are able to obtain a waiver of the Ratios or satisfactory amendment to the Stendal mill's loan facilities with its lenders, when the Stendal mill reports on its compliance with the Ratios on September 30, 2013 for the trailing 12-month period ended June 30, 2013, it will not be in compliance with the Ratios. We have entered into discussions with the mill's lenders to obtain a satisfactory amendment or waiver of such covenant, although we cannot provide assurance that a successful outcome will be obtained. See Summary Recent Developments Stendal Credit Facilities .

*We may not have sufficient funds or may be restricted in our ability to repurchase the Senior Notes upon a change in control.*

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The Indenture contains provisions that apply to a change in our control. You may require us to repurchase all or any portion of your Senior Notes upon a change in control. We may not have sufficient funds to repurchase the Senior Notes upon a change in control. The current project loan facilities of our subsidiaries limit our subsidiaries' ability to make cash disbursements to us and future debt agreements may prohibit us from paying the repurchase price. If we are prohibited from repurchasing the Senior Notes, we could seek consent from our lenders to make distributions to repurchase the Senior Notes. If we are unable to obtain consent, we could attempt to refinance the Senior Notes. If we are unable to obtain a consent or refinance, we would be prohibited from repurchasing the Senior Notes. If we are unable to repurchase the Senior Notes upon a change in control, it

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would result in an event of default under the Indenture. An event of default under the Indenture could result in a further event of default under our other then-existing debt. In addition, the occurrence of the change in control may be an event of default under our other debt. Our ability to repurchase the Senior Notes in such event may be limited by law, the Indenture, or the terms of other agreements relating to our senior indebtedness.

### ***An active or liquid trading market has not developed and may not develop for the Senior Notes.***

There is no established trading market for the Senior Notes and the Existing Senior Notes trade infrequently. We have not and do not intend to apply for listing or quotation of the Senior Notes on any securities exchange or automated quotation system. The underwriter may make a market for the Senior Notes and assist in their resale, but is not obligated to do so. Any market making activity may be discontinued at any time for any reason, without notice, after this offering is completed. We cannot predict whether an active trading market for the Senior Notes will develop or, if such market develops, how liquid it will be. If an active market for the Senior Notes fails to develop or to be sustained, the trading price of the Senior Notes could fall. Even if an active trading market were to develop, the Senior Notes could trade at prices that may be lower than the initial offering price of the Senior Notes, or the holders could experience difficulty or an inability to resell the Senior Notes. Whether or not the Senior Notes will trade at lower prices depends on many factors, including:

the number of holders of the Senior Notes;

our operating performance and financial condition;

the interest of securities dealers in making a market;

prevailing interest rates and the markets for similar securities; and

general economic conditions.

### ***The market price of the Senior Notes may be volatile.***

You may not be able to sell your Senior Notes at a particular time or at a price favorable to you. Future trading prices of the Senior Notes will depend on many factors, including:

the number of holders of the Senior Notes;

our operating performance and financial condition;

the interest of securities dealers in making a market;

prevailing interest rates and the markets for similar securities; and

general economic conditions.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in prices. The market for the Senior Notes, if any, may be subject to similar disruptions. A disruption may have a negative effect on you as a holder of the

Senior Notes, regardless of our prospects or performance.

*An adverse rating of the Senior Notes may cause their trading price to fall.*

If a rating agency rates the Senior Notes, it may assign a rating that is lower than the rating expected by you. Ratings agencies also may lower ratings on the Senior Notes or any of our other debt in the future. If rating agencies assign a lower than-expected rating or reduce, or indicate that they may reduce, their ratings of our debt in the future, the trading price of the Senior Notes could significantly decline.

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### **Risks Related to the Company**

#### ***Our business is highly cyclical in nature.***

The pulp business is highly cyclical in nature and markets are characterized by periods of supply and demand imbalance, which in turn affects prices. Pulp markets are highly competitive and are sensitive to cyclical changes in the global economy, industry capacity and foreign exchange rates, all of which can have a significant influence on selling prices and our operating results. The length and magnitude of industry cycles have varied over time but generally reflect changes in macro-economic conditions and levels of industry capacity. Pulp is a commodity that is generally available from other producers. Because commodity products have few distinguishing qualities from producer to producer, competition is generally based upon price, which is generally determined by supply relative to demand.

Industry capacity can fluctuate as changing industry conditions can influence producers to idle production capacity or permanently close mills. In addition, to avoid substantial cash costs in idling or closing a mill, some producers will choose to operate at a loss, sometimes even a cash loss, which can prolong weak pricing environments due to oversupply. Oversupply of our products can also result from producers introducing new capacity in response to favorable pricing trends.

Demand for pulp has historically been determined primarily by general global macroeconomic conditions and has been closely tied to overall business activity. From 2006 to mid-2008, pulp prices steadily improved. However, the global economic crisis in the latter half of 2008 resulted in a sharp decline of pulp prices from a high of \$900 per ADMT to \$635 per ADMT at the end of 2008. Pulp prices began to increase in the second half of 2009 and continued to increase to record levels through June of 2010, before declining slightly in the fourth quarter of 2010. Pulp prices again rebounded to record levels in the first half of 2011 but declined sharply in the latter part of the year, primarily due to economic uncertainty in Europe and credit tightening in China. Economic uncertainty in Europe and China, respectively, impacted both demand and prices. In 2012, list prices were on average approximately 15% lower than 2011. At March 31, 2013, list prices for NBSK pulp were approximately \$840 per ADMT in Europe, \$900 per ADMT in North America and \$700 per ADMT in China.

Accordingly, prices for pulp are driven by many factors outside our control, and we have little influence over the timing and extent of price changes, which are often volatile. Because market conditions beyond our control determine the price for pulp, prices may fall below our cash production costs, requiring us to either incur short-term losses on product sales or cease production at one or more of our mills. Therefore, our profitability depends on managing our cost structure, particularly raw materials which represent a significant component of our operating costs and can fluctuate based upon factors beyond our control. If the prices of our products decline, or if prices for our raw materials increase, or both, our results of operations and cash flows could be materially adversely affected.

#### ***Our level of indebtedness could negatively impact our financial condition and results of operations.***

As of March 31, 2013, we had approximately 713.2 million of indebtedness outstanding, of which 442.9 million relates to the Stendal Loan Facility and the Blue Mill Facility (as defined herein). We may also incur additional indebtedness in the future. Our high debt levels may have important consequences for us, including, but not limited to the following:

our ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes or to fund future operations may not be available on terms favorable to us or at all;

a significant amount of our operating cash flow is dedicated to the payment of interest and principal on our indebtedness, thereby diminishing funds that would otherwise be available for our operations and for other purposes;

increasing our vulnerability to current and future adverse economic and industry conditions;

a substantial decrease in net operating cash flows or increase in our expenses could make it more difficult for us to meet our debt service requirements, which could force us to modify our operations;



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our leveraged capital structure may place us at a competitive disadvantage by hindering our ability to adjust rapidly to changing market conditions or by making us vulnerable to a downturn in our business or the economy in general;

causing us to offer debt or equity securities on terms that may not be favorable to us or our shareholders;

limiting our flexibility in planning for, or reacting to, changes and opportunities in our business and our industry; and

our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay the principal or interest due in respect of our indebtedness.

Our ability to repay or refinance our indebtedness will depend on our future financial and operating performance. Our performance, in turn, will be subject to prevailing economic and competitive conditions, as well as financial, business, legislative, regulatory, industry and other factors, many of which are beyond our control. Our ability to meet our future debt service and other obligations, in particular the Stendal Loan Facility, may depend in significant part on the extent to which we can implement successfully our business strategy. We cannot assure you that we will be able to implement our strategy fully or that the anticipated results of our strategy will be realized.

### ***A weakening of the global economy could adversely affect our business and financial results and have a material adverse effect on our liquidity and capital resources.***

Principally, as pulp demand has historically been determined by general global macroeconomic activities, demand and prices for our product have historically decreased substantially during economic slowdowns. For example, economic weakness in Europe since the 2008 global financial crisis has adversely affected demand for pulp. Additionally, restricted credit availability restrains our customers' ability or willingness to purchase our products resulting in lower revenues. Depending on their severity and duration, the effects and consequences of a global economic downturn could have a material adverse effect on our liquidity and capital resources, including our ability to raise capital, if needed, and otherwise negatively impact our business and financial results.

### ***Cyclical fluctuations in the price and supply of our raw materials could adversely affect our business.***

Our main raw material is fiber in the form of wood chips and pulp logs. Such fiber is cyclical in terms of both price and supply. The cost of wood chips and pulp logs is primarily affected by the supply and demand for lumber. Demand for these raw materials is generally determined by the volume of pulp and paper products produced globally and regionally. Since 2006, generally higher energy prices and a focus on, and governmental initiatives related to, green or renewable energy have led to an increase in renewable energy projects in Europe, including Germany. Demand for wood residuals from such energy producers, combined with lower harvesting rates, has generally put upward pressure on prices for wood residuals, such as wood chips, in Germany and its neighboring countries. This has resulted in higher fiber costs for our German mills and such trend could continue to put further upward pressure on wood chip prices.

Similarly, North American sawmill activity declined significantly during the recession, reducing the supply of chips and availability of pulp logs to our Celgar mill. Additionally, North American energy producers are exploring the viability of renewable energy initiatives and governmental initiatives in this field are increasing, all of which could lead to higher demand for sawmill residual fiber, including chips. The cyclical nature of pricing for these raw materials represents a potential risk to our profit margins if pulp producers are unable to pass along price increases to their customers or we cannot offset such costs through higher prices for our surplus energy.

We do not own any timberlands or have any long-term governmental timber concessions and we currently have few long-term fiber contracts at our German operations. Raw materials are available from a number of suppliers and we have not historically experienced material supply interruptions or substantial sustained price

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increases. However, our requirements have increased and may continue to do so as we expand capacity through capital projects or other efficiency measures at our mills. As a result, we may not be able to purchase sufficient quantities of these raw materials to meet our production requirements at prices acceptable to us during times of tight supply. In addition, the quantity, quality and price of fiber we receive could be affected as a result of industrial disputes, material curtailments or shut-down of operations by suppliers, government orders and legislation (including new taxes or tariffs), weather conditions, acts of God and other events beyond our control. An insufficient supply of fiber or reduction in the quality of fiber we receive would materially adversely affect our business, financial condition, results of operations and cash flow. In addition to the supply of wood fiber, we are dependent on the supply of certain chemicals and other inputs used in our production facilities. Any disruption in the supply of these chemicals or other inputs could affect our ability to meet customer demand in a timely manner and could harm our reputation. Any material increase in the cost of these chemicals or other inputs could have a material adverse effect on our business, results of operations, financial condition and cash flows.

### ***We operate in highly competitive markets.***

We sell our pulp globally, with a large percentage sold in Europe, North America and Asia. The markets for pulp are highly competitive. A number of other global companies compete in each of these markets and no company holds a dominant position. Our pulp is considered a commodity because many companies produce similar and largely standardized products. As a result, the primary basis for competition in our markets has been price. Many of our competitors have greater resources and lower leverage than we do and may be able to adapt more quickly to industry or market changes or devote greater resources to the sale of products than we can. There can be no assurance that we will continue to be competitive in the future. Prices for our products are affected by many factors outside of our control and we have no influence over the timing and extent of price changes, which are often volatile. Our profitability with respect to these products depends, in part, on managing our costs, particularly raw material and energy costs which represent significant components of our operating costs and can fluctuate based upon factors beyond our control.

The global pulp market has historically been characterized by considerable swings in prices which have and will result in variability in our earnings. Prices are typically denominated in U.S. dollars.

### ***We are exposed to currency exchange rate and interest rate fluctuations.***

The majority of our sales are in products quoted in U.S. dollars while most of our operating costs and expenses, other than those of the Celgar mill, are incurred in Euros. In addition, all of the products sold by the Celgar mill are quoted in U.S. dollars and the Celgar mill costs are primarily incurred in Canadian dollars. Our results of operations and financial condition are reported in Euros. As a result, our revenues are adversely affected by a decrease in the value of the U.S. dollar relative to the Euro and to the Canadian dollar. Such shifts in currencies relative to the Euro and the Canadian dollar reduce our operating margins and the cash flow available to fund our operations and to service our debt. This could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In 2002, Stendal entered into variable-to-fixed interest rate swaps to fix interest payments under the Stendal Loan Facility, which has kept Stendal from benefiting from the general decline in interest rates that ensued. These derivatives are marked to market at the end of each reporting period and all unrealized gains and losses are recognized as earnings or losses for the relevant reporting periods.

### ***We use derivatives to manage certain risk which has caused significant fluctuations in our operating results.***

We use derivative instruments to limit our exposure to interest rate and pulp price fluctuations. Concurrently with entering into the Stendal financing, Stendal entered into variable-to-fixed rate interest swaps for the full term of our Stendal Loan Facility to manage its interest rate risk exposure with respect to the full principal

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amount of this facility. Because we effectively fixed the rate on our Stendal Loan Facility, the value of our derivative position moves inversely to interest rates. We have also recently entered into fixed price pulp swap contracts with a bank.

We record unrealized gains or losses on our derivative instruments when they are marked to market at the end of each reporting period and realized gains or losses on them when they are settled. These unrealized and realized gains and losses can materially impact our operating results for any reporting period.

If any of the variety of instruments and strategies we utilize are not effective, we may incur losses which may have a materially adverse effect on our business, financial condition, results of operations and cash flow. The purpose of our derivative activity may also be considered speculative in nature; we do not use these instruments with respect to any pre-set percentage of revenues or other formula, but either to augment our potential gains or reduce our potential losses depending on our perception of future economic events and developments.

### ***We are subject to extensive environmental regulation and we could have environmental liabilities at our facilities.***

Our operations are subject to numerous environmental laws as well as permits, guidelines and policies. These laws, permits, guidelines and policies govern, among other things:

unlawful discharges to land, air, water and sewers;

waste collection, storage, transportation and disposal;

hazardous waste;

dangerous goods and hazardous materials and the collection, storage, transportation and disposal of such substances;

the clean-up of unlawful discharges;

land use planning;

municipal zoning; and

employee health and safety.

In addition, as a result of our operations, we may be subject to remediation, clean-up or other administrative orders or amendments to our operating permits, and we may be involved from time to time in administrative and judicial proceedings or inquiries. Future orders, proceedings or inquiries could have a material adverse effect on our business, financial condition and results of operations. Environmental laws and land use laws and regulations are constantly changing. New regulations or the increased enforcement of existing laws could have a material adverse effect on our business and financial condition. In addition, compliance with regulatory requirements is expensive, at times requiring the replacement, enhancement or modification of equipment, facilities or operations. There can be no assurance that we will be able to maintain our profitability by offsetting any increased costs of complying with future regulatory requirements.

We are subject to liability for environmental damage at the facilities that we own or operate, including damage to neighboring landowners, residents or employees, particularly as a result of the contamination of soil, groundwater or surface water and especially drinking water. The costs of such liabilities can be substantial. Our potential liability may include damages resulting from conditions existing before we purchased or operated these facilities. We may also be subject to liability for any offsite environmental contamination caused by pollutants or hazardous substances that we or our predecessors arranged to transport, treat or dispose of at other locations. In addition, we may be held legally

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responsible for liabilities as a successor owner of businesses that we acquire or have acquired. Except for Stendal, our facilities have been operating for decades and we have not done invasive

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testing to determine whether or to what extent environmental contamination exists. As a result, these businesses may have liabilities for conditions that we discover or that become apparent, including liabilities arising from non-compliance with environmental laws by prior owners. Because of the limited availability of insurance coverage for environmental liability, any substantial liability for environmental damage could materially adversely affect our results of operations and financial condition.

Enactment of new environmental laws or regulations or changes in existing laws or regulations might require significant capital expenditures. We may be unable to generate sufficient funds or access other sources of capital to fund unforeseen environmental liabilities or expenditures.

### ***Our business is subject to risks associated with climate change and social and government responses thereto.***

Currently, there are differing scientific studies and opinions relating to the severity, extent and speed at which climate change is or may be occurring around the world. As a result, we are currently unable to identify and predict all of the specific consequences of climate change on our business and operations.

To date, the potential and/or perceived effects of climate change and social and government responses to it have created both opportunities, such as enhanced sales of surplus green energy, and risks for our business.

While all of the specific consequences from climate change are not yet predictable, we are subject to risks that government and social focus on and demand for carbon neutral or green energy will create greater demand for the wood residuals or fiber that is consumed by our pulp mills as part of their production process. In addition, governmental initiatives or legislation may also increase both the demand and prices for wood residuals. As governments pursue green energy initiatives, they may implement financial, tax, pricing or other legislated incentives for renewable energy producers that cannibalize or materially adversely affect fiber supplies for existing traditional users, such as lumber and pulp and paper producers.

Such additional demand for wood residuals and/or governmental initiatives may materially increase the competition and prices for wood residuals over time. This could increase our fiber costs and/or restrict our ability to acquire fiber at competitive prices or at all during times of shortages. If our fiber costs increase and we cannot pass on these costs to our customers or offset them through higher prices for our sales of surplus energy, it will negatively affect our operating margins, results of operations and financial position. If we cannot obtain the fiber required to operate our mills, we may have to curtail and/or shut down production. This could have a material adverse effect on operations, financial results and financial position.

Other potential risks to our business from climate change include:

a greater susceptibility of northern softwood forest to disease, fire and insect infestation, which could diminish fiber availability;

the disruption of transportation systems and power supply lines due to more severe storms;

the loss of water transportation for logs and our finished goods inventories due to lower water levels;

decreases in quantity and quality of processed water for our mill operations;

the loss of northern softwood boreal forests in areas in sufficient proximity to our mills to competitively acquire fiber; and

lower harvest levels decreasing the supply of harvestable timber and, as a consequence, wood residuals.

The occurrence of some or all of these events could have a material adverse effect on our operations and/or financial results.





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***Our operations require substantial capital and we may be unable to maintain adequate capital resources to provide for all of our capital requirements.***

Our business is capital intensive and requires that we regularly incur capital expenditures to maintain our equipment, improve efficiencies and, as a result of changes to environmental regulations that require capital expenditures, bring our operations into compliance with such regulations. In addition, our senior management and board of directors may approve projects in the future that will require significant capital expenditures. Increased capital expenditures could have a material adverse effect on our cash flow and our ability to satisfy our debt obligations. If our available cash resources and cash generated from operations are not sufficient to fund our operating needs and capital expenditures, we would have to obtain additional funds from borrowings or other available sources or reduce or delay our capital expenditures. Recent global credit conditions and the downturn in the global economy have resulted in a significant decline in the credit markets and the overall availability of credit. Our indebtedness could adversely affect our financial health, limit our operations and impair our ability to raise additional capital. If this occurs, we may not be able to obtain additional funds on favorable terms or at all. If we cannot maintain or upgrade our equipment as may be required from time to time, we may become unable to manufacture products that compete effectively. An inability to make required capital expenditures in a timely fashion could have a material adverse effect on our growth, business, financial condition or results of operations.

***Future acquisitions may result in additional risks and uncertainties in our business.***

In order to grow our business, we may seek to acquire additional assets or companies. Our ability to pursue selective and accretive acquisitions will be dependent on management's ability to identify, acquire, and develop suitable acquisition targets in both new and existing markets, but, in certain circumstances, acceptable acquisition targets might not be available. In pursuing acquisition and investment opportunities, we face competition from other companies having similar growth strategies, many of which may have substantially greater resources than us. Competition for these acquisitions or investment targets could result in increased acquisition or investment prices, higher risks and a diminished pool of businesses or assets available for acquisition.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could have a material adverse effect on our operating results. Furthermore, the costs of integrating acquired businesses (including restructuring charges associated with the acquisitions, as well as other acquisition costs, such as accounting fees, legal fees and investment banking fees) could significantly impact our operating results.

Although we perform diligence on the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual condition of these businesses. We may not be able to ascertain the value or understand the potential liabilities of the acquired businesses and their operations until we assume operating control of the assets and operations of these businesses.

Furthermore, any future acquisitions of businesses or facilities could entail a number of risks, including:

problems with the effective integration of operations;

inability to maintain key pre-acquisition business relationships;

increased operating costs;

exposure to substantial unanticipated liabilities; and

difficulties in realizing projected efficiencies, synergies and cost savings.

In addition, geographic and other expansions, acquisitions or joint ventures may require significant managerial attention, which may be diverted from our other operations. If we are unsuccessful in overcoming these risks, our business, financial condition or results of operations could be materially and adversely affected.



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***Changes in credit ratings issued by nationally recognized statistical rating organizations could adversely affect our cost of financing and have an adverse effect on the market price of our securities.***

Credit rating agencies rate our debt securities on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading or downgrading the current rating or placing the company on a watch list for possible future downgrading. Downgrading the credit rating of our debt securities or placing us on a watch list for possible future downgrading could limit our access to the credit markets, increase our cost of financing and have an adverse effect on the market price of our securities.

***Project Blue Mill may not generate the results or benefits we expect.***

Project Blue Mill is subject to customary risks and uncertainties inherent for large capital projects which could result in the project not completing on schedule or as budgeted. The Stendal mill could experience operating difficulties or delays during the start-up period when the new 40 MW turbine is being ramped up. Project Blue Mill may not increase the Stendal mill's pulp production and energy generating capacity to the levels we had planned. Cost overruns, equipment breakdowns or failures to perform to design specifications could have a material adverse effect on our Stendal mill's results of operations and financial performance.

***The actual timing, costs and benefits of the Celgar mill workforce reduction may differ from those currently expected.***

On July 9, 2013, we announced that our Celgar mill intends to undertake a workforce reduction designed to, among other things, reduce the mill's fixed costs and improve its competitiveness. The Celgar workforce reduction initiative is subject to various risks, which could result in the actual timing, costs and benefits of the initiative differing from those currently anticipated. These risks and uncertainties include, among others that: we may not be able to implement the planned reduction in the timeframe currently planned; our costs related to such reduction may be higher than currently estimated; and unanticipated disruptions to the Celgar mill's operations may result in additional costs being incurred, anticipated benefits not being realized and may adversely impact the mill's operations.

***We are subject to risks related to our employees.***

The majority of our employees are unionized. Our collective agreement for our Rosenthal mill expired on May 31, 2013 and, although we expect to renew it in due course without any material work stoppage or material cost impact, we cannot assure you that the renewal will be achieved or that the terms will be attractive. We have collective agreements in place with our employees at our Celgar and Stendal mills. Although we have not experienced any work stoppages in the past, there can be no assurance that we will be able to negotiate acceptable collective agreements or other satisfactory arrangements with our employees upon the expiration of our collective agreements. This could result in a strike or work stoppage by the affected workers. The registration or renewal of the collective agreements or the outcome of our wage negotiations could result in higher wages or benefits paid to union members. Accordingly, we could experience a significant disruption of our operations or higher on-going labor costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, whenever we seek to reduce manning at any of our mills, the affected mill's labour force could seek to hinder or delay such actions, we could incur material severance or other costs, and our operations could be disrupted.

***We rely on government grants and guarantees and participate in European statutory programs.***

We currently benefit from a subsidized capital expenditure program and lower cost of financing as a result of German federal and state government grants and guarantees at our Stendal mill. Should either the German federal or state governments be prohibited from honoring legislative grants and guarantees at Stendal, or should we be required to repay any such legislative grants, this may have a material adverse effect on our business, financial condition, results of operations and cash flow.

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Since 2005, our German mills have benefitted from sales of emission allowances under the EU Emission Trading System, referred to as the EU ETS. As a result of our Rosenthal and Stendal mills' eligibility for special tariffs under the Renewable Energy Act, the amount of emissions allowances granted to our German mills under the EU ETS has been reduced. Additionally, all such German legislation is subject to amendment or change which could adversely affect the eligibility of our Rosenthal and Stendal mills to participate in this statutory program and/or the tariffs paid thereunder. As a result, we cannot predict with any certainty the amount of future sales of surplus energy we may be able to generate.

### ***We are dependent on key personnel.***

Our future success depends, to a large extent, on the efforts and abilities of our executive and senior mill operating officers. Such officers are industry professionals, many of whom have operated through multiple business cycles. Our officers play an integral role in, among other things:

sales and marketing;

reducing operating costs;

identifying capital projects which provide a high rate of return; and

prioritizing expenditures and maintaining employee relations.

The loss of one or more of our officers could make us less competitive in these areas which could materially adversely affect our business, financial condition, results of operations and cash flows. We do not maintain any key person life insurance for any of our executive or senior mill operating officers.

### ***We may experience material disruptions to our production.***

A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our pulp and energy sales and/or negatively impact our results of operations. Any of our mills could cease operations unexpectedly due to a number of events, including:

unscheduled maintenance outages;

prolonged power failures;

equipment failure;

employee errors or failures;

design error or employee or contractor error;

chemical spill or release;

explosion of a boiler;

disruptions in the transportation infrastructure, including roads, bridges, railway tracks, tunnels, canals and ports;

fires, floods, earthquakes or other natural catastrophes;

prolonged supply disruption of major inputs;

labor difficulties;

capital projects that require temporary cost increases or curtailment of production; and

other operational problems.

Any such downtime or facility damage could prevent us from meeting customer demand for our products and/or require us to make unplanned capital expenditures. If any of our facilities were to incur significant downtime, our ability to meet our production capacity targets and satisfy customer requirements would be impaired and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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*If our long-lived assets become impaired, we may be required to record non-cash impairment charges that could have a material impact on our results of operations.*

We review the carrying value of long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Should the markets for our products deteriorate or should we decide to invest capital differently or should other cash flow assumptions change, it is possible that we will be required to record non-cash impairment charges in the future that could have a material adverse effect on our results of operations.

*We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks or natural disasters.*

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks or natural disasters, could create economic and financial disruptions and could lead to operational difficulties (including travel limitations) that could impair our ability to manage or operate our business and adversely affect our results of operations.

*Our insurance coverage may not be adequate.*

We have obtained insurance coverage that we believe would ordinarily be maintained by an operator of facilities similar to our mills. Our insurance is subject to various limits and exclusions. Damage or destruction to our facilities could result in claims that are excluded by, or exceed the limits of, our insurance coverage. Additionally, the weak global and financial markets have also reduced the availability and extent of credit insurance for our customers. If we cannot obtain adequate credit insurance for our customers, we may be forced to amend or curtail our planned operations which could negatively impact our sales revenues, results of operations and financial position.

*We rely on third parties for transportation services.*

Our business primarily relies upon third parties for the transportation of pulp to our customers, as well as for the delivery of our raw materials to our mills. Our pulp and raw materials are principally transported by truck, barge, rail and sea-going vessels, all of which are highly regulated. Increases in transportation rates can also materially adversely affect our results of operations.

Further, if our transportation providers fail to deliver our pulp in a timely manner, it could negatively impact our customer relationships and we may be unable to sell it at full value. If our transportation providers fail to deliver our raw materials in a timely fashion, we may be unable to manufacture pulp in response to customer orders. Also, if any of our transportation providers were to cease operations, we may be unable to replace them at a reasonable cost. The occurrence of any of the foregoing events could materially adversely affect our results of operations.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table contains our consolidated ratios of earnings to fixed charges for the periods indicated.

	Three Months Ended			Year Ended December 31,			
	March 31, 2013	2012	2012	2011	2010	2009	2008
Ratio of earnings to fixed charges <sup>(1)</sup>	1.10	1.20	0.96 <sup>(2)</sup>	1.92	2.31	(2)	(2)

(1) For the purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes, noncontrolling interest, income (loss) from equity investee and fixed charges. Fixed charges consist of interest expense plus capitalized interest.

(2) For the years ended December 31, 2012, 2009 and 2008, our earnings were not sufficient to cover fixed charges by approximately 2.4 million, 76.2 million and 81.0 million, respectively.

The following table contains the ratios of earnings to fixed charges for the Restricted Group for the periods indicated.

	Three Months Ended			Year Ended December 31,			
	March 31, 2013	2012	2012	2011	2010	2009	2008
Ratio of earnings to fixed charges <sup>(1)</sup>	0.87 <sup>(2)</sup>	1.07	0.63 <sup>(2)</sup>	2.79	2.67	(2)	0.04 <sup>(2)</sup>

(1) For the purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes, noncontrolling interest, income (loss) from equity investee and fixed charges. Fixed charges consist of interest expense plus capitalized interest.

(2) For the three months ended March 31, 2013 and the years ended December 31, 2012, 2009 and 2008, our earnings were not sufficient to cover fixed charges by approximately 0.8 million, 8.7 million, 36.4 million and 26.1 million, respectively.

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**USE OF PROCEEDS**

The net proceeds from the sale of the Additional Senior Notes offered through this prospectus supplement, after deducting the underwriter's discounts and estimated offering expenses, are estimated to be approximately \$50.5 million. We intend to use the net proceeds of this offering for general corporate purposes, including repaying approximately \$25 million borrowed under senior secured revolving credit facilities for our Celgar and Rosenthal mills that mature May 2016 and October 2016, respectively. The amount to be repaid under the Celgar facility is C\$13 million, which currently bears interest at 3.25%. The amount to be repaid under the Rosenthal facility is 10 million and bears interest at a rate of 3.60%. See Description of Other Indebtedness .

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**Table of Contents****CAPITALIZATION**

Capitalization is the amount invested in a company and is a common measurement of a company's size. The following table sets forth our capitalization and that of the Restricted Group as of March 31, 2013 on an actual basis and on an as adjusted basis to give effect to this offering. You should read the information set forth in the table below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited financial statements and the accompanying notes in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, each of which is incorporated by reference in this prospectus supplement and attached hereto as Annex A and Annex B, respectively.

	As of March 31, 2013 <sup>(1)</sup>			
	Restricted Group	Restricted Group As Adjusted for this Offering (Euros in thousands)	Consolidated Group	Consolidated Group As Adjusted for this Offering
<b>Cash and Cash Equivalents</b>	52,032	81,132 <sup>(2)</sup>	110,664	139,764
<b>Debt</b>				
Stendal credit facility			432,907	432,907
Blue Mill facility for the Stendal mill of 17,000			10,000	10,000
Rosenthal revolving credit facility of 25,000 <del>0</del>				
Rosenthal revolving credit facility of 3,500 <del>0</del>				
Celgar revolving credit facility of C\$40 million <sup>(3)</sup>	10,735		10,735	
Rosenthal equipment loan agreement of 4,351	1,088	1,088	1,088	1,088
Loan payable to noncontrolling shareholder of the Stendal mill			37,088	37,088
The Senior Notes	221,429	262,640	221,429	262,640
<b>Debt</b>	233,252	263,728	713,247	743,723
<b>Shareholders' Equity</b>				
Share capital	248,757	248,757	248,757	248,757
Paid-in capital	3,103	3,103	(3,706)	(3,706)
Retained earnings	56,747	56,730	25,375	25,358
Accumulated other comprehensive loss	21,570	21,570	21,570	21,570
<b>Total shareholders' equity<sup>(4)</sup></b>	330,177	330,160	291,996	291,979
<b>Total Capitalization</b>	563,429	593,888	1,005,243	1,035,702

(1) Unaudited.

(2) Includes accrued interest paid by purchasers of the Additional Senior Notes from June 1, 2013. Will be reduced by \$20.0 million if we successfully amend the Stendal mill's loan facilities. See Recent Developments - Stendal Credit Facilities.

(3) Amounts borrowed after March 31, 2013 and outstanding at the time of the offering will be repaid with the proceeds of the offering.

(4) Excludes a noncontrolling interest deficit of 16.2 million with respect to the Stendal mill.

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**DESCRIPTION OF OTHER INDEBTEDNESS**

The following summaries of certain material provisions of: (i) our Senior Notes; (ii) the working capital facilities and investment loan associated with our Rosenthal mill; and (iii) the Celgar Working Capital Facility, as such terms are referred to below, are not complete and these provisions, including definitions of certain terms, are qualified by reference to the applicable documents and the applicable amendments to such documents on file with the SEC.

**Senior Notes**

In November 2010, we issued the Existing Senior Notes to principally refinance our 9.25% Senior Notes due 2013, referred to as the 2013 Senior Notes. The Existing Senior Notes bear interest at a rate of 9.5% per annum, payable semi-annually in arrears on December 1 and June 1. The Existing Senior Notes mature on December 1, 2017. The Existing Senior Notes are our senior unsecured obligations and, accordingly, rank junior in right of payment to all existing and future secured indebtedness and all indebtedness and liabilities of our subsidiaries, equal in right of payment with all of our existing and future unsecured senior indebtedness and senior in right of payment to any current or future subordinated indebtedness. The Existing Senior Notes were issued under the Indenture.

In order to take into account the nature of the non-recourse project financing of the loan facility for our Stendal mill and to enhance our financing flexibility, the Indenture provides for a Restricted Group and an unrestricted group. The terms of the Indenture are applicable to the Restricted Group and are generally not applicable to the unrestricted group. Currently, the Restricted Group is comprised of Mercer Inc., the Rosenthal and Celgar mills and certain holding subsidiaries. The Restricted Group excludes our Stendal mill. The working capital facilities and Rosenthal Investment Loan at our Rosenthal and Celgar mills are obligations of the Restricted Group. The Stendal Loan Facility and Blue Mill Facility are obligations of our unrestricted group.

We have purchased and cancelled an aggregate of approximately \$15.6 million in aggregate principal amount of the initial Existing Senior Notes that we issued. As at March 31, 2013, approximately \$284.4 million in aggregate principal amount of Existing Senior Notes remained outstanding.

For a more detailed description of the Senior Notes, see Description of Notes.

***Rosenthal Loan Facilities***

Our Rosenthal mill has the following credit facilities:

a 25.0 million revolving working capital facility that matures October 2016, referred to as the Rosenthal Loan Facility. The Rosenthal Loan Facility consists of a revolving credit facility which may be utilized by way of cash advances or advances by way of letter of credit or bank guarantees. The interest payable on cash advances is Euribor plus 3.5%, plus certain other costs incurred by the lenders in connection with the facility. Each cash advance is to be repaid on the last day of the respective interest period and in full on the termination date and each advance by way of a letter of credit or bank guarantee shall be repaid on the applicable expiry date of such letter of credit or bank guarantee. An interest period for cash advances shall be one, three or six months or any other period as Rosenthal and the lenders may determine. There is also a 1.1% per annum commitment fee on the unused and uncanceled amount of the revolving facility which is payable semi-annually in arrears. This facility is secured by a first ranking security interest on the inventories, receivables and accounts of Rosenthal. It also provides Rosenthal with a hedging facility relating to the hedging of the interest, currency and pulp prices as they affect Rosenthal pursuant to a strategy agreed to by Rosenthal and the lender from time to time. As at March 31, 2013, 24.0 million was available under this facility;

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a 4.4 million investment loan, referred to as the Rosenthal Investment Loan, with a lender, relating to the purchase of a wash press in 2009 at our Rosenthal mill. The four-year amortizing investment loan bears interest at the rate of Euribor plus 2.75% and matures in February 2014. Borrowings under this agreement are secured by the wash press equipment. As at March 31, 2013, the principal amount outstanding under the Rosenthal Investment Loan was 1.1 million and was accruing interest at a rate of 3.13%; and

a 3.5 million revolving credit facility for our Rosenthal mill which bears interest at the rate of the three-month Euribor plus 3.5%. The facility matures in December 2015. As at March 31, 2013, 2.2 million was available under this facility.

As at March 31, 2013, the total amount of funds available under the working capital facilities associated with the Rosenthal mill was 26.2 million.

***Celgar Working Capital Facility***

Our Celgar mill has a C\$40.0 million revolving working capital credit facility that matures in May 2016, referred to as the Celgar Working Capital Facility. It is available by way of: (i) Canadian and U.S. denominated advances which bear interest at a designated prime rate plus 0.25% for Canadian advances and at a designated base rate plus 0.25% per annum for U.S. advances; (ii) banker's acceptance equivalent loans which will be subject to a discount rate and an acceptance fee calculated on the face amount of such loans at a rate equal to the applicable Canadian dollar bankers' acceptance rate plus 1.75% per annum; and/or (iii) LIBOR advances which bear interest at the applicable LIBOR plus 1.75% per annum. The Celgar Working Capital Facility also incorporates a C\$3.0 million letter of credit sub-line. Celgar is also required to pay a 0.35% per annum standby fee monthly in arrears on any unutilized portion of the revolving facility. Availability of drawdowns under the facility is subject to a borrowing base limit that is based upon the Celgar mill's eligible accounts receivable and inventory levels from time to time. The Celgar Working Capital Facility is secured by, among other things, a first fixed charge on the current assets of Celgar.

As at March 31, 2013, C\$22.3 million of funds were available under the Celgar Working Capital Facility.

**Indebtedness of Unrestricted Subsidiaries**

The following summaries of certain material provisions of: (i) the Stendal Loan Facility; and (ii) a 17.0 million amortizing term facility at our Stendal mill in respect of Project Blue Mill, referred to as the Blue Mill Facility, are not complete and these provisions, including definitions of certain terms, are qualified by reference to the applicable documents and the applicable amendments to such documents on file with the SEC.

***Stendal Loan Facility***

In August 2002, Stendal entered into a senior 828.0 million project finance facility, referred to as the Stendal Loan Facility. The Stendal Loan Facility was comprised of several tranches which covered, among other things, project construction and development costs, financing and start-up costs and working capital, as well as the financing of the debt service reserve account, or DSRA, approved cost overruns and a revolving loan facility that covered time lags for receipt of grant funding and value-added tax refunds, which has been repaid. The DSRA is an account maintained to hold and, if needed, pay up to one year's principal and interest due under the facility as partial security for the lenders. Other than the revolving working capital tranche, no further advances are currently available under the Stendal Loan Facility.

Pursuant to the Stendal Loan Facility, interest accrues at variable rates between Euribor plus 0.90% and Euribor plus 1.80% per year. The facility allows Stendal to manage its risk exposure to interest rate risk, currency risk and pulp price risk by way of interest rate swaps, Euro and U.S. dollar swaps and pulp hedging transactions, subject to certain controls, including certain maximum notional and at-risk amounts. Pursuant to the terms of the facility, in 2002 Stendal entered into interest rate swap agreements in respect of borrowings to fix most of the interest costs under the Stendal Loan Facility at a rate of 5.28% plus an applicable margin, until final payment in October 2017.

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The tranches are generally repayable in installments and the Stendal Loan Facility matures in September 2017.

In February 2009, we completed an agreement with Stendal's lending syndicate to amend the Stendal Loan Facility, referred to as the Amendment. Pursuant to the Amendment, Stendal's obligation to repay \$164.0 million of scheduled principal payments, referred to as the Deferred Amount, is deferred until maturity of the facility in September 2017. Until the Deferred Amount is repaid in full, Stendal may not make distributions, in the form of interest and capital payments on shareholder debt or dividends on equity invested, to its shareholders, including us. The Amendment also provides for a 100% cash sweep, referred to as the Cash Sweep, of any excess cash of Stendal which will be used first to fund the DSRA to a level sufficient to service the amounts due and payable under the Stendal Loan Facility during the then following 12 months, or Fully Funded, and second to prepay the Deferred Amount. Not included in the Cash Sweep is an amount of \$15.0 million which Stendal is permitted to retain for working capital purposes. The DSRA balance as at March 31, 2013 was approximately \$33.0 million.

The Amendment implemented a permitted leverage ratio of total debt under the Stendal Loan Facility to EBITDA, or Senior Debt/EBITDA Cover Ratio, to be effective from December 31, 2009 and to decline over time from 13.0x on its effective date to 4.5x on June 30, 2017. Subsequently, Stendal's lending syndicate waived compliance with the permitted leverage ratio for the year ended December 31, 2009. The Amendment also revised the Stendal Loan Facility's annual debt service cover ratio, or Annual Debt Ratio, requirement to be at least 1.1x for the period from December 31, 2011 to December 31, 2013 and 1.2x from January 1, 2014 until maturity.

Unless we are able to obtain a waiver of the Ratios or satisfactory amendment to the Stendal mill's loan facilities with its lenders, when the Stendal mill reports on its compliance with the Ratios on September 30, 2013 for the trailing 12-month period ended June 30, 2013, it will not be in compliance with the Ratios. We have entered into discussions with the mill's lenders to obtain a satisfactory amendment or waiver of such covenant. See Summary Recent Developments Stendal Credit Facilities.

The Amendment includes the following as events of default:

if scheduled debt service for two consecutive half-year periods is partially or wholly financed by drawings from the DSRA and as a result the DSRA is less than 33 1/3% Fully Funded;

if the DSRA is fully drawn and Stendal exercises its current six-month principal payment deferral right in respect of the next repayment date;

failure to meet the Senior Debt/EBITDA Cover Ratio or Annual Debt Ratio as set out above; or

if, from December 31, 2011 until the date the Stendal Loan Facility is fully repaid, Mercer Inc. raises proceeds from an equity financing (subject to certain exceptions) and the DSRA is not Fully Funded and if we fail to contribute the lesser of 50% of the net proceeds raised or \$10.0 million to the capital of Stendal.

The Amendment provides that Stendal and its shareholders may, once per fiscal year, cure a deficiency in each of the Annual Debt Ratio or the Senior Debt/EBITDA Cover Ratio by way of a capital contribution or fully subordinated shareholder loan to Stendal in the amount necessary to cure such deficiency and thereby prevent the occurrence of an event of default. Our ability to fund this cure is substantially limited by the terms of the Senior Notes.

The tranches under the Stendal Loan Facility are severally guaranteed by German federal and state governments in respect of an aggregate of 80% of the principal amount of these tranches. Under the guarantees, the German federal and state governments that provide the guarantees are responsible for the performance of our payment obligations for the guaranteed amounts. Such governmental guarantees permit the Stendal Loan Facility to benefit from lower interest costs and other credit terms than would otherwise be unavailable. The Stendal Loan Facility is secured by substantially all of the assets of Stendal.

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In order to permit Stendal to enter into the Blue Mill Facility (as described below), the Stendal Loan Facility was amended. In particular, the funds in the DSRA may now be used to bridge any deficiency in funding for Project Blue Mill, payments to Stendal's capital reserves are no longer an equity cure measure under the Stendal Loan Facility and the Stendal Loan Facility now has a cross-default provision with the Blue Mill Facility.

In connection with the Stendal Loan Facility, we entered into a shareholders' undertaking agreement, referred to as the Undertaking, dated August 26, 2002, as amended, with Stendal's then minority shareholders and the lenders in order to finance the shareholders' contribution to the Stendal mill. Under the terms of the Undertaking, we have agreed, for as long as Stendal has any liability under the Stendal Loan Facility, to retain control over at least 51% of the voting shares of Stendal.

Since completion of the Stendal mill in September 2004, Stendal has repaid 235.0 million of the Stendal Loan Facility. As at March 31, 2013, the principal amount outstanding under the Stendal Loan Facility was 432.9 million.

### ***Blue Mill Facility***

In January 2012, our Stendal mill entered into the Blue Mill Facility, being a 17.0 million amortizing term facility, to finance Project Blue Mill. The Blue Mill Facility, 80% of which is guaranteed by the State of Saxony-Anhalt, bears interest at a rate of Euribor plus 3.5% per annum and is scheduled to mature in September 2017. The Blue Mill Facility's annual debt service cover ratio and permitted ratio of total debt to EBITDA are identical to the Annual Debt Ratio and the Senior Debt/EBITDA Cover Ratio in the Stendal Loan Facility (including cure provisions). There is also a cross default for the Stendal Loan Facility. The Blue Mill Facility will be repaid in nine half-yearly installments, together with accrued interest commencing September 30, 2013 and will be non-recourse to Mercer Inc. As at March 31, 2013, 10.0 million had been drawn on this facility and was accruing interest at a rate of approximately 3.83%.

As part of the term facility, we were required to open an investment account with the lender for the purpose of managing project costs and are required to deposit all funding associated with Project Blue Mill in this account. As at March 31, 2013, the balance in the investment account was 2.9 million.

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**DESCRIPTION OF NOTES**

You can find the definitions of certain terms used in this description under the subheading **Certain Definitions**. In this description, the word **Mercer** refers only to Mercer International Inc. and not to any of its subsidiaries.

Mercer will issue the Additional Senior Notes under the Indenture pursuant to which Mercer issued the Existing Senior Notes. In this description, we refer to the Additional Senior Notes and the Existing Senior Notes collectively as the **Senior Notes**. The terms of the Senior Notes will include those stated in the Indenture and those made part of the Indenture by reference to the *Trust Indenture Act of 1939*, as amended.

The following description of the Senior Notes is a summary of the material provisions of the Senior Notes and the Indenture. The following description of Senior Notes does not restate the Indenture in its entirety and is qualified by reference to the text of the Indenture, which was filed on our Current Report on Form 8-K dated November 19, 2010, and is incorporated by reference herein. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the Senior Notes. Certain defined terms used in this description but not defined below under **Certain Definitions** have the meanings assigned to them in the Indenture. This description of Senior Notes supersedes the **Description of Debt Securities** in the accompanying prospectus to the extent it is inconsistent with such **Description of Debt Securities**.

The registered holder of a Senior Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

**Brief Description of the Notes**

The Senior Notes:

will be general unsecured obligations of Mercer; and

will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of Mercer.

However, the Senior Notes will be effectively subordinated to all borrowings of our Restricted Subsidiaries, including borrowings under the Credit Agreements, which are secured by substantially all of the assets of certain of our Restricted Subsidiaries. See **Risk Factors**. We are a holding company and we are substantially dependent on cash provided by our subsidiaries to meet our debt service obligations under the Senior Notes. and The Senior Notes will be effectively subordinated to all liabilities of our subsidiaries and are unsecured. We may not have sufficient funds to pay our obligations under the Senior Notes if we encounter financial difficulties.

The operations of Mercer are conducted through its Subsidiaries and, therefore, Mercer depends on the cash flow of its Subsidiaries to meet its obligations, including its obligations under the Senior Notes. The Senior Notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of Mercer's Subsidiaries. Any right of Mercer to receive assets of any of its Subsidiaries upon the Subsidiary's liquidation or reorganization (and the consequent right of the holders of the Senior Notes to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors, except to the extent that Mercer is itself recognized as a creditor of the Subsidiary by reason of intercompany loans or otherwise, in which case the claims of Mercer would still be effectively subordinate in right of payment to any secured Indebtedness of the Subsidiary or Indebtedness senior to that held by Mercer. As at March 31, 2013, after giving effect to this offering and the application of proceeds of the offering as described under **Use of Proceeds**, Mercer's Restricted Subsidiaries would have had approximately 263.7 million of Indebtedness and 53.2 million of trade payables and other liabilities outstanding.

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As of the date of the Indenture, Rosenthal and Celgar (and their respective Subsidiaries) were designated Restricted Subsidiaries, and Stendal (and its Subsidiaries) were designated Unrestricted Subsidiaries and they remain Unrestricted Subsidiaries as of the date hereof. Under the circumstances described below under the caption Certain Covenants Designation of Restricted and Unrestricted Subsidiaries, we will be permitted to designate certain additional Subsidiaries of Mercer as Unrestricted Subsidiaries. Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. None of our Subsidiaries will guarantee the Senior Notes, except in the circumstances described below under the caption Certain Covenants Note Guarantees.

### **Principal, Maturity and Interest**

Mercer will issue \$50.0 million in aggregate principal amount of Additional Senior Notes in this offering. Mercer may issue additional Senior Notes under the Indenture from time to time after this offering. Any further issuance of additional Senior Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock. The Senior Notes and any additional notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. Mercer will issue Additional Senior Notes in denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000. The Senior Notes will mature on December 1, 2017.

Interest on the Additional Senior Notes will accrue at the rate of 9.5% per annum and will be payable semi-annually in arrears on June 1 and December 1, commencing on December 1, 2013. Interest on overdue principal and interest, if any, will accrue at a rate that is 1% higher than the then applicable interest rate on the Senior Notes. Mercer will make each interest payment to the holders of record on the immediately preceding May 15 and November 15.

Interest on the Additional Senior Notes will accrue from the most recent interest payment date, being June 1, 2013 or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

If an interest payment date falls on a day that is not a business day, the interest payment to be made on such interest payment date will be made on the next succeeding business day with the same force and effect as if made on such interest payment date, and no additional interest will accrue solely as a result of such delayed payment.

### **Methods of Receiving Payments on the Notes**

If a holder of Additional Senior Notes has given wire transfer instructions to Mercer or the paying agent, Mercer will pay all principal, interest and premium, if any, on that holder's Additional Senior Notes in accordance with those instructions. All other payments on the Senior Notes will be made at the office or agency of the paying agent and registrar within or without the City and State of New York unless Mercer elects to make interest payments by check mailed to the holders at their address set forth in the register of holders.

### **Paying Agent and Registrar for the Notes**

The trustee will initially act as paying agent and registrar. Mercer may change the paying agent or registrar without prior notice to the holders of the Senior Notes, and Mercer or any of its Subsidiaries may act as paying agent or registrar.

### **Transfer and Exchange**

A holder may transfer or exchange Senior Notes in accordance with the provisions of the Indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and

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transfer documents in connection with a transfer of Senior Notes. Holders will be required to pay all taxes due on transfer. Mercer will not be required to transfer or exchange any note selected for redemption, except for the unredeemed portion of any note being redeemed in part. Also, Mercer will not be required to transfer or exchange any note for a period of 15 days before a selection of Senior Notes to be redeemed.

**Optional Redemption**

Except as otherwise described below, the Senior Notes will not be redeemable at Mercer's option prior to December 1, 2014. Mercer is not, however, prohibited from acquiring the Senior Notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise, so long as the acquisition does not violate the terms of the Indenture.

At any time prior to December 1, 2013 Mercer may, on any one or more occasions, redeem up to 35% of the aggregate principal amount of Senior Notes issued under the Indenture at a redemption price of 109.500% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of a sale of Equity Interests (other than Disqualified Stock) of Mercer; provided that:

- (1) at least 65% of the aggregate principal amount of Senior Notes originally issued under the Indenture (excluding Senior Notes held by Mercer and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 90 days of the date of the closing of such sale of Equity Interests.

On or after December 1, 2014, Mercer may redeem all or a part of the Senior Notes upon not less than 30 nor more than 60 days' notice to the holders, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest on the Senior Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on December 1 of the years indicated below, subject to the rights of holders of Senior Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2014	104.750%
2015	102.375%
2016 and thereafter	100.000%

Unless Mercer defaults in the payment of the redemption price, interest will cease to accrue on the Senior Notes or portions thereof called for redemption on the applicable redemption date.

**Mandatory Redemption**

Except as set forth below under "Repurchase at the Option of Holders", Mercer is not required to make mandatory redemption or sinking fund payments with respect to the Senior Notes or to repurchase the Senior Notes at the option of the holders.

**Repurchase at the Option of Holders*****Change of Control***

If a Change of Control occurs, Mercer will make an offer to each holder to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of that holder's Senior Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, Mercer will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of Senior Notes repurchased plus accrued and unpaid interest, if any, on the Senior Notes repurchased to the date of purchase, subject to the rights of holders of Senior Notes on the relevant record date to receive interest due on the relevant



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interest payment date. Within 20 days following any Change of Control, Mercer will mail a notice to each holder that, among other things, describes the transaction or transactions that constitute the Change of Control and offers to repurchase Senior Notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice. Mercer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Senior Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, Mercer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such compliance.

On the Change of Control Payment Date, Mercer will, to the extent lawful:

- (1) accept for payment all Senior Notes or portions of Senior Notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all Senior Notes or portions of Senior Notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the Senior Notes properly accepted together with an officers certificate stating the aggregate principal amount of Senior Notes or portions of Senior Notes being purchased by Mercer.

The paying agent will promptly mail to each holder of Senior Notes properly tendered the Change of Control Payment for such Senior Notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the Senior Notes surrendered, if any. Mercer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date. The provisions described above that require Mercer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the Senior Notes to require that Mercer repurchase or redeem the Senior Notes in the event of a takeover, recapitalization or similar transaction.

Mercer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by Mercer and purchases all Senior Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the Indenture as described above under the caption **Optional Redemption**, unless and until there is a default in payment of the applicable redemption price.

Mercer's ability to repurchase Senior Notes pursuant to a Change of Control Offer may be restricted by the terms of any Credit Facility and may be prohibited or otherwise limited by the terms of any then existing borrowing arrangements and Mercer's financial resources. The exercise by the holders of Senior Notes of their right to require Mercer to repurchase the Senior Notes upon a Change of Control Offer could cause a default under these other agreements, even if the Change of Control itself does not, due to the financial effect of such repurchases on Mercer or otherwise. The Credit Agreements provide that certain change of control events with respect to Mercer would constitute an event of default thereunder, entitling the lenders, among other things, to accelerate the maturity of all senior debt outstanding thereunder. Any future credit agreements or other agreements relating to senior debt to which Mercer becomes a party may contain similar restrictions and provisions. In addition, Mercer's ability to pay cash to holders of Senior Notes following the occurrence of a Change of Control may be limited by its then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required purchases.

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The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Mercer and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Senior Notes to require Mercer to repurchase its Senior Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Mercer and its Subsidiaries taken as a whole to another Person or group may be uncertain.

### ***Asset Sales***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (1) Mercer (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of (provided that Fair Market Value shall be determined on the date of contractually agreeing to such Asset Sale); and
- (2) at least 75% of the consideration received in the Asset Sale by Mercer or such Restricted Subsidiary is in the form of cash. For purposes of this provision, each of the following will be deemed to be cash:
  - (a) Cash Equivalents;
  - (b) any liabilities, as shown on Mercer's most recent consolidated balance sheet, of Mercer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Senior Notes) that are assumed by the transferee of any such assets pursuant to an agreement that releases Mercer or such Restricted Subsidiary from, or indemnifies Mercer or such Restricted Subsidiary against, further liability;
  - (c) any securities, Senior Notes or other obligations received by Mercer or any such Restricted Subsidiary from such transferee that are converted within 60 days by Mercer or such Restricted Subsidiary into cash or Cash Equivalents, to the extent of the cash or Cash Equivalents received in that conversion; and
  - (d) any stock or assets of the kind referred to in clauses (2) or (4) of the next paragraph of this covenant.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, Mercer (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds:

- (1) to permanently repay or prepay Indebtedness and other Obligations under a Credit Facility and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;
- (2) to acquire (including by way of a purchase of assets or stock, merger, consolidation or otherwise), or enter into a binding commitment to acquire within 120 days thereafter, all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of Mercer;
- (3) to make, or enter into a binding commitment to make within 60 days thereafter, a capital expenditure; or

(4) to acquire other assets that are not classified as current assets under GAAP and that are used or useful in a Permitted Business. Pending the final application of any Net Proceeds, Mercer or a Restricted Subsidiary may temporarily reduce revolving credit borrowings (under the Credit Facilities or otherwise) or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

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Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds \$15.0 million, within five days thereof, Mercer will make an Asset Sale Offer to all holders of Senior Notes and all holders of other Indebtedness that is *pari passu* with the Senior Notes containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Senior Notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount plus accrued and unpaid interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, Mercer may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Senior Notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the Senior Notes and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

Mercer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of Senior Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the Indenture, Mercer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the Indenture by virtue of such compliance.

### **Selection and Notice**

If less than all of the Senior Notes are to be redeemed or purchased in an offer to purchase at any time, the trustee will select Senior Notes for redemption or purchase by lot pursuant to the rules of DTC, if applicable, or on a *pro rata* basis or some other method as the trustee deems fair and appropriate unless otherwise required by law or applicable stock exchange requirements.

No Senior Notes of \$2,000 or less can be redeemed in part. Notices of redemption will be mailed to holders by first class mail or electronic transmission at least 30 but not more than 60 days before the redemption date to each holder of Senior Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Senior Notes or a satisfaction and discharge of the Indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of Senior Notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Senior Notes or portions of Senior Notes called for redemption.

### **Certain Covenants**

#### ***Restricted Payments***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of Mercer or any of its Restricted Subsidiaries Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving Mercer or any of its Restricted Subsidiaries) or to the direct or indirect holders of Mercer or any of its Restricted Subsidiaries Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Mercer and other than dividends or distributions payable to Mercer or a Restricted Subsidiary of Mercer);

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- (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Mercer) any Equity Interests of Mercer or any direct or indirect parent of Mercer;
  - (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of Mercer that is contractually subordinated to the Senior Notes (excluding any intercompany Indebtedness between or among Mercer and any of its Restricted Subsidiaries), except a payment of interest or principal at the Stated Maturity thereof; or
  - (4) make any Restricted Investment;
- (all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as Restricted Payments ), unless, at the time of and after giving effect to such Restricted Payment:
- (1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;
  - (2) Mercer would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock ; and
  - (3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Mercer and its Restricted Subsidiaries since the date of the Indenture (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (7), and (8) of the next succeeding paragraph), is less than the sum, without duplication, of:
    - (a) 50% of the Consolidated Net Income of Mercer for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the date of the Indenture to the end of Mercer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); plus
    - (b) 100% of the aggregate net cash proceeds received by Mercer since the date of the Indenture (i) as a contribution to its common equity capital or from the issue or sale of Equity Interests of Mercer including upon exercise of stock options whether issued before or after the date of the Indenture (other than Disqualified Stock) or (ii) from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of Mercer that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of Mercer); plus
    - (c) to the extent that any Restricted Investment that was made after the date of the Indenture is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (ii) the initial amount of such Restricted Investment; plus
    - (d) to the extent that any Unrestricted Subsidiary of Mercer designated as such after the date of the Indenture is redesignated as a Restricted Subsidiary after the date of the Indenture, the lesser of (i) the Fair Market Value of Mercer's Investment in such Subsidiary as of the date of such redesignation or (ii) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the date of the Indenture; plus

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- (e) 50% of (i) any dividends, interest, intercompany loan payments or other distributions received in cash by Mercer or a Restricted Subsidiary of Mercer after the date of the Indenture from an Unrestricted Subsidiary of Mercer, to the extent that such dividends, interest, intercompany loan payments or other distributions were not otherwise included in Consolidated Net Income of

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Mercer for such period; (ii) without duplication, any amounts received in cash by Mercer or a Restricted Subsidiary of Mercer after the date of the Indenture representing the proceeds of any settlement of any Hedging Obligations, to the extent that such dividends or cash proceeds represent gains previously recognized under GAAP and were not otherwise included in calculating the Consolidated Net Income of Mercer; and (iii) the amount of any marketing administration or other fee received in cash by Mercer or a Restricted Subsidiary from an Unrestricted Subsidiary to the extent such amounts were not included in the Consolidated Net Income of Mercer for such period; less 100% of any payment made in settlement of any Hedging Obligations of Mercer and its Restricted Subsidiaries to the extent such payment represents cumulative net losses previously recognized under GAAP and not previously deducted in calculating the Consolidated Net Income of Mercer.

So long as no Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

- (1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice the dividend or redemption payment would have complied with the provisions of the Indenture;
- (2) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of Mercer) of, Equity Interests of Mercer (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to Mercer; provided that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;
- (3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of Mercer that is contractually subordinated to the Senior Notes with:
  - (a) the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness, or
  - (b) after the completion of a Change in Control Offer pursuant to the terms of the covenant described above under the caption Repurchase at the Option of Holders – Change of Control , to the extent required pursuant to any similar change of control offer provision of the Indenture or other agreement governing Subordinated Indebtedness;
- (4) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of Mercer to the holders of its Equity Interests who are not Affiliates of Mercer, except Restricted Subsidiaries of Mercer, on a *pro rata* basis;
- (5) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Mercer or any Restricted Subsidiary of Mercer held by any current or former officer, director or employee of Mercer or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed \$2.0 million in any twelve-month period;
- (6) the repurchase of Equity Interests deemed to occur upon the exercise of stock options or stock appreciation rights to the extent such Equity Interests represent a portion of the exercise price of those stock options or stock appreciation rights;
- (7) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of Mercer issued on or after the date of the Indenture in accordance with the Fixed Charge Coverage Ratio test described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock ;





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- (8) payments or distributions to shareholders exercising appraisal or discount rights pursuant to applicable law pursuant to or in connection with a merger, consolidation or transfer of all or substantially all of Mercer and its Restricted Subsidiary assets that complies with the provisions of the Indenture;
- (9) in the event of a Change of Control, and if no Default or Event of Default shall have occurred and be continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Indebtedness of Mercer or any Guarantor that is subordinated or junior in right of payment to the Senior Notes or the Guarantee (including the Exchange Notes and any Guarantees thereof) of such Guarantor, in each case, at a purchase price not greater than 101% of the principal amount of such Indebtedness, plus any accrued and unpaid interest therein; provided that prior or contemporaneously with such payment, purchase, redemption or defeasance or other acquisition or retirement, Mercer (or a third party to the extent permitted by the Indenture) has made the Change of Control Offer with respect to the Senior Notes (including the Exchange Notes) and has repurchased all Senior Notes validly tendered and not withdrawn in connection with such Change of Control Offer;
- (10) in the event of an Asset Sale which requires Mercer to make an Asset Sale Offer, and if no Default or Event of Default shall have occurred and be continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Indebtedness of Mercer or any Guarantor that is subordinated or junior in right of payment to the Senior Notes or the Guarantee (including the Exchange Notes and any Guarantees thereof) of such Guarantor, in each case, at a purchase price not greater than 100% of the principal amount of such Indebtedness, plus any accrued and unpaid interest therein; provided that prior or contemporaneously with such payment, purchase, redemption or defeasance or other acquisition or retirement, the Company has made an Asset Sale Offer with respect to the Senior Notes (including the Exchange Notes) and has repurchased all Senior Notes (including the Exchange Notes) validly tendered and not withdrawn in connection with such Asset Sale Offer;
- (11) the purchase, redemption, acquisition, cancellation or other retirement for a nominal value per right of any rights granted to all the holders of Common Stock of Mercer pursuant to any shareholders' rights plan adopted for the purpose of protecting shareholders from unfair takeover practices; provided that any such purchase, redemption, acquisition, cancellation or other retirement of such rights shall not be for the purpose of evading the limitations of this covenant (as determined in good faith by the Board of Directors of Mercer); and
- (12) other Restricted Payments in an aggregate amount not to exceed \$25.0 million since the date of the Indenture.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by Mercer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this covenant will be determined in good faith (a) in the case of assets or securities of \$10.0 million or less by the Chief Financial Officer, Controller or Treasurer of Mercer set forth in a certificate delivered to the trustee, and (b) in the case of assets or securities valued at more than \$10.0 million by the Board of Directors of Mercer, and set forth in an officers certificate delivered to the trustee. The Board of Directors' determination must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing in the United States or Canada if the Fair Market Value of any such non-cash Restricted Payment exceeds \$30.0 million.

***Incurrence of Indebtedness and Issuance of Preferred Stock***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt), and Mercer will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; provided, however, that Mercer may incur Indebtedness (including Acquired Debt)

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or issue Disqualified Stock, and any Restricted Subsidiary that is a Guarantor may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for Mercer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

- (1) the incurrence by Mercer and its Restricted Subsidiaries of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of Mercer and its Restricted Subsidiaries thereunder) not to exceed the greater of (x) \$100.0 million less the aggregate amount of all Net Proceeds of Asset Sales applied by Mercer or any of its Restricted Subsidiaries since the date of the Indenture to repay any term Indebtedness under a Credit Facility or to repay any revolving credit Indebtedness under a Credit Facility and effect a corresponding commitment reduction thereunder pursuant to the covenant described above under the caption "Repurchase at the Option of Holders - Asset Sales", or (y) the amount of the Borrowing Base on the date of incurrence;
- (2) the incurrence by Mercer and its Restricted Subsidiaries of the Existing Indebtedness;
- (3) the incurrence by Mercer of Indebtedness represented by the Senior Notes to be issued on the date of the Indenture;
- (4) the incurrence by Mercer or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings, project financing, or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the business of Mercer or any of its Restricted Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed at any time outstanding \$20.0 million plus an amount, not to exceed \$10.0 million, equal to all German and/or Canadian federal and/or state and/or provincial grant receivables in connection therewith;
- (5) the incurrence by Mercer or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance, replace, defease or discharge any Indebtedness that was permitted by the Indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5) or (14) of this paragraph;
- (6) the incurrence by Mercer or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Mercer and any of its Restricted Subsidiaries; provided, however, that:
  - (a) if Mercer is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Senior Notes; and
  - (b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Mercer or a Restricted Subsidiary of Mercer and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either Mercer or a Restricted Subsidiary of Mercer, will be deemed, in each case, to constitute an incurrence of such Indebtedness by Mercer or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

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- (7) the issuance by any of Mercer's Restricted Subsidiaries to Mercer or to any of its Restricted Subsidiaries of shares of preferred stock; provided, however, that:
- (a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than Mercer or a Restricted Subsidiary of Mercer; and
  - (b) any sale or other transfer of any such preferred stock to a Person that is not either Mercer or a Restricted Subsidiary of Mercer,
- will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);
- (8) the incurrence by Mercer or any of its Restricted Subsidiaries of Hedging Obligations (which may, but need not be, under Credit Facilities) in the ordinary course of business and not for speculation;
- (9) the guarantee by Mercer or any Guarantors of Indebtedness of Mercer or a Restricted Subsidiary of Mercer that was permitted to be incurred by another provision of this covenant; provided, that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Senior Notes, then the Guarantee shall be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;
- (10) the incurrence by Mercer or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance and surety bonds in the ordinary course of business;
- (11) the incurrence by Mercer or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five business days;
- (12) Indebtedness of a Restricted Subsidiary incurred and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by Mercer (other than Indebtedness incurred in contemplation of, or in connection with, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary of or was otherwise acquired by Mercer); provided, however, that for any such Indebtedness outstanding at any time under this clause (12), on the date that such Subsidiary is acquired by Mercer, Mercer would have been able to incur \$1.00 of additional Indebtedness pursuant to the first paragraph of this covenant and Mercer's Fixed Charge Coverage Ratio would not be reduced after giving effect to the incurrence of such Indebtedness pursuant to this clause (12);
- (13) Indebtedness arising from agreements of Mercer or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case incurred or assumed in connection with the disposition of any assets or property or Capital Stock of a Restricted Subsidiary; and
- (14) the incurrence by Mercer or any of its Restricted Subsidiaries of additional Indebtedness (which may, but need not, be pursuant to Credit Facilities) in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (14), not to exceed \$25.0 million.

Mercer will not incur, and will not permit any Guarantor to incur, any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of Mercer or such Guarantor unless such Indebtedness is also contractually subordinated in right of

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payment to the Senior Notes and the applicable Note Guarantee on substantially identical terms; provided, however, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness solely by virtue of being unsecured or by virtue of being secured on a first or junior Lien basis.

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For purposes of determining compliance with this Incurrence of Indebtedness and Issuance of Preferred Stock covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (14) above or is entitled to be incurred pursuant to the first paragraph of this covenant, Mercer will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under Credit Facilities outstanding on the date on which Senior Notes are first issued and authenticated under the Indenture will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt. Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness. The accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on Disqualified Stock or preferred stock in the form of additional shares of the same class of Disqualified Stock or preferred stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock or preferred stock for purposes of this covenant; provided, in each such case, that the amount of any such accrual, accretion or payment is included in Fixed Charges of Mercer as accrued. For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; provided that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this Indenture, the maximum amount of Indebtedness that Mercer or any Restricted Subsidiary may incur pursuant to this covenant shall not be or be deemed to be exceeded as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;
- (2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and
- (3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
  - (a) the Fair Market Value of such assets at the date of determination; and
  - (b) the amount of the Indebtedness of the other Person.

***Liens***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind on any asset now owned or hereafter acquired, except Permitted Liens, unless all payments due under the Indenture and the Senior Notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

***Limitation on Sale and Leaseback Transactions***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; provided that Mercer or any Restricted Subsidiary may enter into a sale and leaseback transaction if:

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- (1) Mercer or that Restricted Subsidiary, as applicable, could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Fixed Charge

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Coverage Ratio test in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption Liens ;

- (2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the Fair Market Value of the property that is the subject of that sale and leaseback transaction; and
- (3) the transfer of assets in that sale and leaseback transaction is permitted by, and Mercer applies the proceeds of such transaction in compliance with, the covenant described above under the caption Repurchase at the Option of Holders Asset Sales .

***Dividend and Other Payment Restrictions Affecting Subsidiaries***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to Mercer or any of its Restricted Subsidiaries or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to Mercer or any of its Restricted Subsidiaries;
- (2) make loans or advances to Mercer or any of its Restricted Subsidiaries; or
- (3) sell, lease or transfer any of its properties or assets to Mercer or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) agreements governing Existing Indebtedness and Credit Facilities as in effect on the date of the Indenture and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; provided that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the date of the Indenture;
- (2) the Indenture and the Senior Notes;
- (3) applicable law, rule, regulation or order;
- (4) any instrument governing Indebtedness or Capital Stock of a Person acquired by Mercer or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;
- (5) customary non-assignment provisions in contracts and licenses entered into in the ordinary course of business;

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- (6) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;
- (7) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending the sale or other disposition;
- (8) Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

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- (9) Liens permitted to be incurred under the provisions of the covenant described above under the caption "Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;
- (10) provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, Capital Stock sale agreements and other similar agreements entered into with the approval of Mercer's Board of Directors, which limitation is applicable only to the assets, or (in the case of Capital Stock sales) entities, that are the subject of such agreements;
- (11) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and
- (12) agreements governing Indebtedness permitted to be incurred by Restricted Subsidiaries of Mercer under the provisions of the covenant described above under the caption "Incurrence of Indebtedness and Issuance of Preferred Stock"; provided that such agreements (except those agreements entered into pursuant to clause (14) of the definition of "Permitted Debt") are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in the agreements governing Credit Facilities as in effect on the date of the Indenture.

***Merger, Consolidation or Sale of Assets***

Mercer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not Mercer is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of Mercer and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

- (1) either: (a) Mercer is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than Mercer) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia, or the laws of Canada or any province or territory thereof;
- (2) the Person formed by or surviving any such consolidation or merger (if other than Mercer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of Mercer under the Senior Notes and the Indenture pursuant to agreements reasonably satisfactory to the trustee;
- (3) immediately after such transaction, no Default or Event of Default exists; and
- (4) Mercer or the Person formed by or surviving any such consolidation or merger (if other than Mercer), or to which such sale, assignment, transfer, conveyance or other disposition has been made would, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "Incurrence of Indebtedness and Issuance of Preferred Stock".

In addition, Mercer will not, directly or indirectly, lease all or substantially all of its properties and assets, in one or more related transactions, to any other Person.

This "Merger, Consolidation or Sale of Assets" covenant will not apply to:

- (1) a merger of Mercer with an Affiliate solely for the purpose of reincorporating Mercer in another jurisdiction; or

- (2) any consolidation or merger, or any sale, assignment, transfer, conveyance, lease or other disposition of assets between or among Mercer and its Restricted Subsidiaries.

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Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve all or substantially all of the properties or assets of a Person.

### ***Transactions with Affiliates***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of Mercer (each, an Affiliate Transaction), unless:

- (1) the Affiliate Transaction is on terms that are no less favorable to Mercer or the relevant Restricted Subsidiary than those that would have reasonably been obtained in a comparable transaction by Mercer or such Restricted Subsidiary with an unrelated Person; and
- (2) Mercer delivers to the trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$5.0 million, a resolution of the Board of Directors of Mercer set forth in an officers' certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of Mercer; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$20.0 million, an opinion as to the fairness to Mercer or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing in the United States or Canada.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) any employment agreement, employee benefit plan, trustee or director indemnification agreement or any similar arrangement entered into by Mercer or any of its Restricted Subsidiaries in the ordinary course of business and payments pursuant thereto;
- (2) transactions between or among Mercer and/or its Restricted Subsidiaries;
- (3) transactions with a Person (other than an Unrestricted Subsidiary of Mercer) that is an Affiliate of Mercer solely because Mercer owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;
- (4) payment of reasonable compensation or fees to directors or officers of Mercer and its Restricted Subsidiaries;
- (5) any issuance of Equity Interests (other than Disqualified Stock) of Mercer to Affiliates of Mercer;
- (6) Restricted Payments that do not violate the provisions of the Indenture described above under the caption Restricted Payments;

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- (7) Permitted Investments that are permitted by the provisions of the Indenture;
  
- (8) provision of corporate-level administrative, marketing, tax, accounting, budgeting, treasury, finance, employee benefits, legal, risk management and other similar services for the benefit of Unrestricted Subsidiaries of Mercer on substantially the same terms provided to Restricted Subsidiaries of Mercer;
  
- (9) payment of consolidated taxes on behalf of Restricted Subsidiaries and Unrestricted Subsidiaries;

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- (10) purchases, sales or other transfers of pulp, fiber, chemicals and other consumables between or among Mercer or any Restricted Subsidiary and any Unrestricted Subsidiary at market prices pursuant to arrangements approved by Mercer's Board of Directors as being fair, from a financial point of view, to Mercer or the applicable Restricted Subsidiary, as the case may be; purchases, sales or other transfers of spare parts or mill consumables between any Restricted Subsidiary and any Unrestricted Subsidiary at book value; the provision of logistics, planning, transportation and fiber procurement services between and/or among any Restricted Subsidiary and Unrestricted Subsidiary at cost; and other transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture, that are fair to Mercer or the Restricted Subsidiary, as the case may be, in the reasonable determination of Mercer's Board of Directors;
- (11) payment of sales agency, administration, management and other fees, payment of interest, principal, dividends or other distributions, in case from an Unrestricted Subsidiary to Mercer or a Restricted Subsidiary to Mercer; and
- (12) loans or advances to employees in the ordinary course of business not to exceed \$2.0 million in the aggregate at any one time outstanding.

***Business Activities***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than Permitted Businesses, except to such extent as would not be material to Mercer and its Restricted Subsidiaries taken as a whole.

***Note Guarantees***

If Mercer or any of its Restricted Subsidiaries acquires or creates a Domestic Subsidiary after the date of the Indenture, then that newly acquired or created Domestic Subsidiary (other than a Domestic Subsidiary the sole business of which is the direct or indirect ownership of one or more Foreign Subsidiaries) will become a Guarantor and execute a Note Guarantee pursuant to a supplemental indenture and deliver an opinion of counsel, reasonably satisfactory to the trustee, within 10 business days of the date on which it was acquired or created; provided that any Domestic Subsidiary that does not constitute a Significant Subsidiary need not become a Guarantor until such time as it is a Significant Subsidiary. Mercer may designate any Restricted Subsidiary as a Guarantor at any time.

***Limitation on Issuances of Guarantees of Indebtedness***

Mercer will not permit any of its Restricted Subsidiaries, directly or indirectly, to Guarantee or pledge any assets to secure the payment of any other Indebtedness of Mercer (except Permitted Liens) unless such Restricted Subsidiary simultaneously executes and delivers a supplemental Indenture providing for the Guarantee of the payment of the Senior Notes by such Restricted Subsidiary, which Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of or pledge to secure such other Indebtedness.

The Note Guarantee of a Guarantor will automatically and unconditionally be released:

- (1) in the event of any sale or other disposition of all or substantially all of the assets of any Guarantor, by way of merger, consolidation or otherwise, or a sale or other disposition of all of the Capital Stock of any Guarantor, in each case to a Person that is not (either before or after giving effect to such transaction) Mercer or a Restricted Subsidiary of Mercer, then such Guarantor (in the event of a sale or other disposition, by way of merger, consolidation or otherwise, of all of the Capital Stock of such Guarantor) or the corporation acquiring the property (in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor) will be released and relieved of any obligations under its Note Guarantee; provided that the Net Proceeds of such sale or other disposition are applied in

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accordance with the applicable provisions of the Indenture, including the Asset Sale provisions of the Indenture. Upon delivery by Mercer to the trustee of an officers' certificate and an opinion of counsel to the effect that such sale or other disposition was made by Mercer in accordance with the provisions of the Indenture, including without limitation the Asset Sale provisions of the Indenture, the trustee will execute any documents reasonably requested by Mercer, at Mercer's expense, in order to evidence the release of any Guarantor from its obligations under its Note Guarantee;

(2) if Mercer designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture; or

(3) upon legal defeasance or covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions Legal Defeasance and Covenant Defeasance and Satisfaction and Discharge .

The form of the Note Guarantee will be attached as an exhibit to the Indenture.

***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors of Mercer may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by Mercer and its Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption Restricted Payments or under one or more clauses of the definition of Permitted Investments, as determined by Mercer. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of Mercer may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Restricted Subsidiary of Mercer as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of a resolution of the Board of Directors giving effect to such designation and an officers' certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption Restricted Payments . If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of Mercer as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption Incurrence of Indebtedness and Issuance of Preferred Stock , Mercer will be in default of such covenant. The Board of Directors of Mercer may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of Mercer; provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of Mercer of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption Incurrence of Indebtedness and Issuance of Preferred Stock , calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

***Payments for Consent***

Mercer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Senior Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Senior Notes unless such consideration is offered to be paid and is paid to all holders of the Senior Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

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### **Reports**

Whether or not required by the rules and regulations of the SEC, so long as any Senior Notes are outstanding, Mercer will furnish to the holders of Senior Notes and to the trustee (or file with the SEC for public availability), within the time periods specified in the SEC's rules and regulations:

- (1) all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K if Mercer were required to file such reports; and

- (2) all current reports that would be required to be filed with the SEC on Form 8-K if Mercer were required to file such reports. All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports. Each annual report on Form 10-K will include a report on Mercer's consolidated financial statements by Mercer's certified independent accountants. In addition, Mercer will file a copy of each of the reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the rules and regulations applicable to such reports (unless the SEC will not accept such a filing).

If, at any time, Mercer is no longer subject to the periodic reporting requirements of the Exchange Act for any reason, Mercer will nevertheless continue filing the reports specified in the preceding paragraphs of this covenant with the SEC within the time periods specified above unless the SEC will not accept such a filing. Mercer will not take any action for the purpose of causing the SEC not to accept any such filings. If, notwithstanding the foregoing, the SEC will not accept Mercer's filings for any reason, Mercer will post the reports referred to in the preceding paragraphs on its website within the time periods that would apply if Mercer were required to file those reports with the SEC.

The quarterly and annual financial information required by the preceding paragraphs will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of Mercer and its Restricted Subsidiaries separate from the consolidated financial condition and results of operations of Mercer.

In addition, Mercer agrees that, for so long as any Senior Notes remain outstanding, if at any time it is not required to file with the SEC the reports required by the preceding paragraphs, it will furnish to the holders of Senior Notes and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. Mercer will be deemed to have provided such information to the holders, securities analysts and prospective investors if it has filed reports containing such information with the SEC via the EDGAR filing system and such reports are publicly available.

### **Events of Default and Remedies**

Each of the following is an Event of Default :

- (1) default for 30 days in the payment when due of interest on the Senior Notes;
- (2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on the Senior Notes;
- (3) failure by Mercer or any of its Restricted Subsidiaries to comply with the provisions described under the captions Repurchase at the Option of Holders Change of Control , Repurchase at the Option of Holders Asset Sales , or Certain Covenants Merger, Consolidation or Sale of Assets ;
- (4)

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failure by Mercer or any of its Restricted Subsidiaries for 60 days after notice to Mercer by the trustee or the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding voting as a single class to comply with any of the other agreements in the Indenture;

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- (5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by Mercer or any of its Restricted Subsidiaries (or the payment of which is guaranteed by Mercer or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the date of the Indenture, if that default:
- (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a Payment Default ); or
- (b) results in the acceleration of such Indebtedness prior to its express maturity,
- and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$15.0 million or more;
- (6) failure by Mercer or any of its Restricted Subsidiaries to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of \$15.0 million, which judgments are not paid, discharged or stayed for a period of 60 days; and
- (7) certain events of bankruptcy or insolvency described in the Indenture with respect to Mercer or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary. In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Mercer, any Restricted Subsidiary of Mercer that is a Significant Subsidiary or any group of Restricted Subsidiaries of Mercer that, taken together, would constitute a Significant Subsidiary, all outstanding Senior Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Senior Notes may declare all the Senior Notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Senior Notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the Senior Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the trustee, in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of Senior Notes unless such holders have offered to the trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal or premium, if any, or interest when due, no holder of a note may pursue any remedy with respect to the Indenture or the Senior Notes unless:

- (1) such holder has previously given the trustee written notice that an Event of Default is continuing;
- (2) holders of at least 25% in aggregate principal amount of the then outstanding Senior Notes have requested the trustee to pursue the remedy;
- (3) such holders have offered the trustee security or indemnity reasonably satisfactory to it against any loss, liability or expense;
- (4) the trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

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- (5) holders of a majority in aggregate principal amount of the then outstanding Senior Notes have not given the trustee a direction inconsistent with such request within such 60-day period.

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The holders of a majority in aggregate principal amount of the then outstanding Senior Notes by written notice to the trustee may, on behalf of the holders of all of the Senior Notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, on, or the principal of, the Senior Notes.

In the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of Mercer with the intention of avoiding payment of the premium that Mercer would have had to pay if Mercer then had elected to redeem the Senior Notes pursuant to the optional redemption provisions of the Indenture, then, upon acceleration of the Senior Notes, an equivalent premium will also become and be immediately due and payable, to the extent permitted by law, anything in the Indenture or the Senior Notes to the contrary notwithstanding. If an Event of Default occurs prior to December 1, 2014, by reason of any willful action (or inaction) taken (or not taken) by or on behalf of Mercer with the intention of avoiding the prohibition on redemption of the Senior Notes prior to December 1, 2014, then an additional premium specified in the Indenture will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the Senior Notes.

Mercer is required to deliver to the trustee annually a statement regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, Mercer is required to deliver to the trustee a statement specifying such Default or Event of Default.

### **No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator or stockholder of Mercer or any Guarantor, as such, will have any liability for any obligations of Mercer or the Guarantors under the Senior Notes, the Indenture or Note Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Senior Notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Senior Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

### **Legal Defeasance and Covenant Defeasance**

Mercer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an officers certificate, elect to have all of its obligations discharged with respect to the outstanding Senior Notes ( Legal Defeasance ) except for:

- (1) the rights of holders of outstanding Senior Notes to receive payments in respect of the principal of, or interest or premium, if any, on, such Senior Notes when such payments are due from the trust referred to below;
- (2) Mercer's obligations with respect to the Senior Notes concerning issuing temporary Senior Notes, mutilated, destroyed, lost or stolen Senior Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee under the Indenture, and Mercer's and the Guarantors' obligations in connection therewith; and
- (4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, Mercer may, at its option and at any time, elect to have the obligations of Mercer released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture ( Covenant Defeasance ) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Senior Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under Events of Default and Remedies will no longer constitute an Event of Default with respect to the Senior Notes.

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In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) Mercer must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the Senior Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest and premium, if any, on, the outstanding Senior Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and Mercer must specify whether the Senior Notes are being defeased to such stated date for payment or to a particular redemption date;
- (2) in the case of Legal Defeasance, Mercer must deliver to the trustee an opinion of counsel, reasonably acceptable to the trustee, confirming that:
  - (a) Mercer has received from, or there has been published by, the Internal Revenue Service a ruling; or
  - (b) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Senior Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, Mercer must deliver to the trustee an opinion of counsel, reasonably acceptable to the trustee, confirming that the holders of the outstanding Senior Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which Mercer is a party or by which Mercer is bound;
- (5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture) to which Mercer or any of its Restricted Subsidiaries is a party or by which Mercer or any of its Restricted Subsidiaries is bound;
- (6) Mercer must deliver to the trustee an officers' certificate stating that the deposit was not made by Mercer with the intent of preferring the holders of Senior Notes over the other creditors of Mercer with the intent of defeating, hindering, delaying or defrauding any creditors of Mercer or others; and
- (7) Mercer must deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

**Amendment, Supplement and Waiver**

Except as provided in the next two succeeding paragraphs, the Indenture or the Senior Notes may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the Senior Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Notes), and any existing Default or Event of Default or

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compliance with any provision of the Indenture or the Senior Notes may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Senior Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Notes).

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Without the consent of each holder of Senior Notes affected, an amendment, supplement or waiver may not (with respect to any Senior Notes held by a non-consenting holder):

- (1) reduce the principal amount of Senior Notes whose holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the fixed maturity of any note or alter the provisions with respect to the redemption of the Senior Notes (other than provisions relating to the covenants described above under the caption "Repurchase at the Option of Holders");
- (3) reduce the rate of or change the time for payment of interest, including default interest, on any note;
- (4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on, the Senior Notes (except a rescission of acceleration of the Senior Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Senior Notes and a waiver of the payment default that resulted from such acceleration);
- (5) make any note payable in money other than that stated in the Senior Notes;
- (6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of Senior Notes to receive payments of principal of, or interest or premium, if any, on, the Senior Notes;
- (7) waive a redemption payment with respect to any note (other than a payment required by one of the covenants described above under the caption "Repurchase at the Option of Holders");
- (8) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the Indenture;  
or
- (9) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of Senior Notes, Mercer, the Guarantors and the trustee may amend or supplement the indenture or the Senior Notes:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated Senior Notes in addition to or in place of certificated notes, in order to comply with any Applicable Procedures, or otherwise alter the provisions of Article 2 of the Indenture in a manner that does not materially adversely affect any holder of Senior Notes;
- (3) to provide for the assumption of Mercer's or a Guarantor's obligations to holders of Senior Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of Mercer's or such Guarantor's assets;

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- (4) to make any change that would provide any additional rights or benefits to the holders of Senior Notes or that does not, in the good faith opinion of the Board of Directors of Mercer, adversely affect the legal rights under the Indenture of any such holder in any material respect;
- (5) to comply with requirements of the SEC in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act;
- (6) to conform the text of the Indenture or the Senior Notes to any provision of the Description of Notes in Mercer's Offering Memorandum dated November 10, 2010 to the extent that such provision in the Description of Notes was intended to be a verbatim recitation of a provision of the Indenture or the Senior Notes;
- (7) to provide for the issuance of additional Senior Notes in accordance with the limitations set forth in the Indenture as of the date of the Indenture; or
- (8) to allow any Restricted Subsidiary to execute a supplemental indenture providing for a Note Guarantee with respect to the Notes.

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### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect as to all Senior Notes issued thereunder, when:

- (1) either:
  - (a) all Senior Notes that have been authenticated, except lost, stolen or destroyed Senior Notes that have been replaced or paid and Senior Notes for whose payment money has been deposited in trust and thereafter repaid to Mercer, have been delivered to the trustee for cancellation; or
  - (b) all Senior Notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and Mercer has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Senior Notes not delivered to the trustee for cancellation for principal, premium and Additional Interest, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which Mercer is a party or by which Mercer is bound;
- (3) Mercer has paid or caused to be paid all sums payable by it under the Indenture; and
- (4) Mercer has delivered irrevocable instructions to the trustee under the Indenture to apply the deposited money toward the payment of the Senior Notes at maturity or on the redemption date, as the case may be.

In addition, Mercer must deliver an officers' certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

### **Concerning the Trustee**

If the trustee becomes a creditor of Mercer, the Indenture limits the right of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee (if the Indenture has been qualified under the Trust Indenture Act) or resign.

The holders of a majority in aggregate principal amount of the then outstanding Senior Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Senior Notes, unless such holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

### **Governing Law**

The Indenture and the Senior Notes provide that they will be governed by, and construed in accordance with, the laws of the State of New York.





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### **Additional Information**

Anyone who receives this prospectus supplement may obtain a copy of the Indenture without charge by writing to Mercer International Inc., Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8, Attention: Investor Relations.

### **Book Entry, Delivery and Form**

The Additional Senior Notes will be issued in the form of one or more registered notes in global form, without interest coupons. Such global notes will be deposited on the issue date with DTC and registered in the name of Cede & Co., as nominee of DTC, or will remain in the custody of the trustee under the Indenture pursuant to an agreement between DTC and the trustee. Beneficial interests in the global notes may not be exchanged for certificated notes except in the circumstances described below. All interests in global notes may be subject to the procedures and requirements of DTC.

Exchanges of beneficial interests in one global security for interests in another global security will be subject to the applicable rules and procedures of DTC and its direct and indirect participants. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global security will, upon transfer, cease to be an interest in that global security and become an interest in the global security to which the beneficial interest is transferred and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in the global security to which the beneficial interest is transferred for as long as it remains an interest in that global security.

The descriptions of the operations and procedures of DTC set forth below are based on materials made available by DTC. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. We do not take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is a limited purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for persons who have accounts with DTC ( participants ) and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, which eliminates the need for physical movement of certificates. Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a direct or indirect custodial relationship with a participant ( indirect participants ). Investors who are not participants may beneficially own Senior Notes held by or on behalf of DTC only through participants or indirect participants. The rules applicable to DTC and its participants are on file with the SEC.

Upon the issuance of the global note, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by the global note to the accounts of the persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in the global note will be limited to participants or persons who hold interests through participants. Ownership of beneficial interests in the global note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants and indirect participants (with respect to interests of persons other than participants).

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So long as DTC or its nominee is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole record owner or holder of the Senior Notes represented by a global note for all purposes under the Indenture and the Senior Notes. Except as set forth herein, owners of beneficial interests in a global note will not be entitled to have Senior Notes represented by such global note registered in their names, will not receive or be entitled to receive physical delivery of Senior Notes in definitive certificated form, and will not be considered holders of the Senior Notes for any purposes under the Indenture.

Accordingly, each person owning a beneficial interest in a global note must rely on the procedures of DTC and, if such person is not a participant, on the procedures of the participant through which such person directly or indirectly owns its interest, to exercise any rights of a holder under the Indenture. We understand that under existing industry practices, if we request any action of holders or any owner of a beneficial interest in a global note desires to give any notice or take any action that a holder is entitled to give or take under the Indenture, DTC would authorize the participants holding the relevant beneficial interests to give such notice or take such action, and such participants would authorize beneficial owners owning through such participants to give such notice or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payments of the principal of, premium, if any, and interest on a global note will be made to DTC or its nominee, as the case may be, as the registered owner. Neither we, the trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that DTC or its nominee, upon receipt of any payment of principal of, premium, if any, or interest in respect of a global note will credit participants' accounts with payments in amounts proportionate to their respective beneficial ownership interests in the principal amount of such global note, as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in a global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be responsible for such payments.

The Indenture provides that, if the Depository notifies us that it is unwilling or unable to continue as Depository for the global notes or if at any time the Depository ceases to be a clearing agency registered under the Exchange Act and we do not appoint a successor depository within 120 days, or if there shall have occurred and be continuing a Default or an Event of Default with respect to the Senior Notes, then we will issue certificated notes in exchange for the global note. In addition, we may, subject to any limitations imposed by the Depository pursuant to its then-current practices, in our sole discretion determine not to have the Senior Notes represented by a global note (in whole but not in part) and, in such event, will issue certificated notes in exchange for the global note. In any such instance, an owner of a beneficial interest in a global note will be entitled to physical delivery of certificated notes equal in principal amount to its beneficial interest and to have the certificated notes registered in its name. We expect that instructions for registering the certificated notes would be based upon directions received from the Depository with respect to ownership of the beneficial interests in a global note.

Although DTC has agreed to the procedures described above in order to facilitate transfers of interests in a global note among participants of DTC, it is under no obligation to perform such procedures and such procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

## **Certain Definitions**

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

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Acquired Debt means, with respect to any specified Person:

- (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and
- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

Affiliate of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, control, as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of more than 20% (measured on a fully diluted basis) of the Voting Stock of a Person (except as reportable on Form 13-F or Form 13-G of the SEC) will be deemed to be control. For purposes of this definition, the terms controlling, controlled by and under common control with have correlative meanings.

Asset Sale means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights; provided that the sale, lease, conveyance or other disposition of all or substantially all of the assets of Mercer and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption Repurchase at the Option of Holders Change of Control and/or the provisions described above under the caption Certain Covenants Merger, Consolidation or Sale of Assets and not by the provisions of the Asset Sale covenant; and
- (2) the issuance of Equity Interests in any of Mercer's Restricted Subsidiaries or the sale of Equity Interests in any of its Subsidiaries. Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than \$2.0 million;
- (2) a transfer of assets between or among Mercer and its Restricted Subsidiaries;
- (3) an issuance of Equity Interests by a Restricted Subsidiary of Mercer to Mercer or to a Restricted Subsidiary of Mercer;
- (4) the sale or lease of products (including electricity and power generated as a by-product of or from, or utilizing the facilities of, any other Permitted Business), services, accounts receivable or current assets in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business;
- (5) the sale or other disposition of cash or Cash Equivalents;
- (6) any release of intangible claims or rights in connection with the loss or settlement of a bona fide lawsuit, dispute or other controversy;

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- (7) leases or subleases to third persons not interfering in any material respect with the business of the Company or any of its Restricted Subsidiaries;
- (8) a Restricted Payment that does not violate the covenant described above under the caption Certain Covenants Restricted Payments or a Permitted Investment; and
- (9) purchases, sales or other transfers of pulp, fiber, chemicals and other consumables between or among Mercer or any Restricted Subsidiary and any Unrestricted Subsidiary at market prices pursuant to arrangements approved by Mercer's Board of Directors as being fair, from a financial point of view, to Mercer or the applicable Restricted Subsidiary, as the case may be; purchases, sales or other transfers

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of spare parts or mill consumables between any Restricted Subsidiary and any Unrestricted Subsidiary at book value; and other transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture, that are fair to Mercer or the Restricted Subsidiary, as the case may be, in the reasonable determination of Mercer's Board of Directors.

Asset Sale Offer has the meaning assigned to that term in the Indenture.

Attributable Debt in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP; provided, however, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of Capital Lease Obligation.

Beneficial Owner has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular person (as that term is used in Section 13(d)(3) of the Exchange Act), such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms Beneficially Owns and Beneficially Owned have a corresponding meaning.

Board of Directors means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (2) with respect to a partnership, the Board of Directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (4) with respect to any other Person (including a business trust), the board of trustees or committee of such Person serving a similar function.

Borrowing Base means, as of any date, an amount equal to:

- (1) 85% of the face amount of all accounts receivable owned by Mercer and its Restricted Subsidiaries as of the end of the most recent fiscal month preceding such date, calculated on a consolidated basis and in accordance with GAAP; plus
- (2) 60% of the book value of all inventory owned by Mercer and its Restricted Subsidiaries as of the end of the most recent fiscal month preceding such date, calculated on a consolidated basis and in accordance with GAAP.

Capital Lease Obligation means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with GAAP.

Capital Stock means:

- (1) in the case of a corporation, corporate stock;

- (2) in the case of an association or business entity or trust, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, including shares of beneficial interest;

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- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

Cash Equivalents means:

- (1) United States dollars, Canadian dollars or Euros;
- (2) securities issued or directly and fully guaranteed or insured by the United States, Canadian, German or United Kingdom government or any agency or instrumentality of the United States, Canadian, German or United Kingdom government (provided that the full faith and credit of the United States, Canada, Germany or the United Kingdom is pledged in support of those securities) having maturities of not more than six months from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any lender party to the Credit Agreements or with any domestic commercial bank having capital and surplus in excess of \$500.0 million and a Thomson Bank Watch Rating of B or better;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within six months after the date of acquisition; and
- (6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

Change of Control means the occurrence of any of the following:

- (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Mercer and its Subsidiaries taken as a whole to any person (as that term is used in Section 13(d) of the Exchange Act);
- (2) the adoption of a plan relating to the liquidation or dissolution of Mercer;
- (3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any person (as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of Mercer, measured by voting power rather than number of shares, provided that, however, it is not a Change in Control if, pursuant to such transaction, all of the Voting Stock of Mercer is changed into or exchanged for securities of a parent corporation that after such transaction owns all of the Capital Stock of Mercer and no person is the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of such parent corporation;



- (4) during any consecutive two-year period, individuals who at the beginning of that two-year period constituted Mercer's Board of Directors (together with any new persons whose election to Mercer's Board of Directors, or whose nomination for election by Mercer's shareholders, was approved by a vote of a majority of the directors who were either directors at the beginning of such period or whose election or nomination for election was approved by Mercer's Board of Directors or the nominating committee thereof, the majority of the members of which meet the above criteria) cease for any reason to constitute a majority of Mercer's Board of Directors then in office; or

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- (5) Mercer consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, Mercer, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of Mercer or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of Mercer outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance).

Change of Control Offer has the meaning assigned to that term in the Indenture.

Consolidated EBITDA means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus, without duplication:

- (1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; plus
- (2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; plus
- (3) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; plus
- (4) depreciation, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; plus
- (5) all expenses including premium and consent payments related to the offering of these Notes (including, without limitation, premium and consent fees) to the extent such amount was deducted in computing such Consolidated Net Income; plus
- (6) the following expenses, losses or gains to the extent such amounts were included in the computation of Consolidated Net Income:
  - (a) extraordinary, non-recurring or unusual losses or expenses, including, without limitation, recruiting, severance and restructuring costs or gains during such period, as determined in good faith by the Board of Directors of Mercer, in each case, without regard to any limitations of Item 10(e) of Regulation S-K; provided that the total of such costs added back pursuant to this clause 6(a) shall not exceed \$5.0 million in any twelve-month period;
  - (b) foreign exchange gains or losses incurred with respect to receivables (net of the impact on payables) on product sales; and
  - (c) expenses related to equipment failures (including, without limitation, costs of repair, equipment replacement or addition) where a good faith application for the recovery of such costs from the vendor or an insurer has been made, less any such recovery and the amount of any such claim to the extent it has been finally determined to be uncollectible, the net amount not to exceed \$2.0 million in the aggregate over any twelve-month period; minus

- (7) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business,

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in each case, on a consolidated basis for such Person and its Restricted Subsidiaries and determined in accordance with GAAP.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, and the depreciation and amortization and other non-cash expenses of, a Restricted Subsidiary of Mercer will be added to Consolidated Net Income to compute Consolidated EBITDA of Mercer only to the extent that a corresponding amount would be permitted at the date of determination to be dividended or distributed, directly or indirectly, to Mercer by such Restricted Subsidiary without prior governmental approval (that has not been obtained), and without direct or indirect restriction pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Restricted Subsidiary or its stockholders.

Consolidated Net Income means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that:

- (1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;
- (2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders;
- (3) the cumulative effect of a change in accounting principles will be excluded;
- (4) any goodwill impairment charges pursuant to Financial Accounting Standards Board Statement No. 142 or any asset impairment charges pursuant to Financial Accounting Standards Board Statement No. 144 will be excluded; and
- (5) notwithstanding clause (1) above, the Net Income of any Unrestricted Subsidiary (including, without limitation, the impact of any Hedging Obligations) will be excluded, whether or not distributed to the specified Person or one of its Subsidiaries.

Credit Agreements means: (i) that certain Credit Agreement by and among Zellstoff Celgar Limited Partnership and Canadian Imperial Bank of Commerce, as Agent, providing for up to C\$40.0 million of revolving credit borrowings, including any related Senior Notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, (ii) that certain Credit Agreement by and among Zellstoff-und Papierfabrik Rosenthal GmbH, D&Z Holding GmbH, D&Z Beteiligungs GmbH and ZPR Logistik GmbH and Bayerische Hypo-und Vereinsbank AG, as original lender and issuing bank, providing for up to 25.0 million of revolving credit borrowings, including any related Senior Notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, and, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time; (iii) that Loan Agreement between Zellstoff-und Papierfabrik Rosenthal GmbH, as borrower and Bayerische Hypo-und Vereinsbank AG for 4.4 million; and (iv) that certain credit agreement among Zellstoff-und Papierfabrik Rosenthal GmbH, D&Z Holding GmbH, D&Z Beteiligungs GmbH and Mercer International Inc. and Kreissparkasse Saale-Orla, as original lender, providing for up to 3.5 million of revolving credit borrowings, including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, and, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time.

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**Credit Facilities** means, one or more debt facilities (including, without limitation, the Credit Agreements) or commercial paper facilities, in each case, with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time.

**Default** means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

**Disqualified Stock** means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Senior Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require Mercer to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that Mercer may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption **Certain Covenants Restricted Payments**. The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the Indenture will be the maximum amount that Mercer and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

**Domestic Subsidiary** means any Restricted Subsidiary of Mercer that was formed under the laws of the United States or any state of the United States or the District of Columbia or that guarantees or otherwise provides direct credit support for any Indebtedness of Mercer.

**Equity Interests** means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

**Existing Indebtedness** means the Indebtedness of Mercer and its Restricted Subsidiaries (other than Indebtedness under the Credit Agreements) in existence on the date of the Indenture, until such amounts are repaid.

**Fair Market Value** means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party. In the case of a transaction not exceeding \$10.0 million, Fair Market Value may be determined in good faith by the Chief Financial Officer, Controller or Treasurer of Mercer, and in the case of a transaction exceeding \$10.0 million, Fair Market Value shall be determined in good faith by the Board of Directors of Mercer (unless otherwise provided in the Indenture).

**Fixed Charge Coverage Ratio** means with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings, including working capital borrowings under Credit Facilities) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the **Calculation Date**), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

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In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

- (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including any related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given pro forma effect (in accordance with Regulation S-X under the Securities Act or, if not in accordance with Regulation S-X constituting Pro Forma Cost Savings not to exceed \$5.0 million in any twelve-month period) as if they had occurred on the first day of the four-quarter reference period;
  - (2) the Consolidated EBITDA which is attributable to discontinued operations (as determined in accordance with GAAP), and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;
  - (3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;
  - (4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;
  - (5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and
  - (6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 6 months).
- Fixed Charges means, with respect to any specified Person for any period, the sum, without duplication, of:

- (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, original issue discount, non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations in accordance with GAAP and excluding amortization and write-offs of debt issuance costs), the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates (excluding, for the avoidance of doubt, amounts due upon settlement of any such Hedging Obligations); plus
- (2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; plus
- (3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; plus

(4) the product of:

- (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of Mercer (other than Disqualified Stock) or to Mercer or a Restricted Subsidiary of Mercer, times;

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- (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with GAAP.

Foreign Subsidiary means any Restricted Subsidiary of Mercer that is not a Domestic Subsidiary.

GAAP means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the date of the Indenture.

Guarantee means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

Guarantor means each Subsidiary of Mercer that executes a Note Guarantee in accordance with the provisions of the Indenture, and its successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

Hedging Obligations means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (2) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates (including, without limitation, foreign currency futures and options, currency swaps, currency forwards and related interest rate swaps and/or forwards) or commodity prices (including, without limitation, commodity futures, swaps or options) or energy prices (including forwards and swaps).

Indebtedness means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, Senior Notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker's acceptances;
- (4) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;
- (5)



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representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed, except any balance that constitutes an accrual of expenses or trade payable; or

- (6) representing any Hedging Obligations (the amount of any such Hedging Obligations to be equal at any time to the termination value of the agreement or arrangement giving rise to such Hedging Obligations that would be payable by such Person at such time), if and to the extent any of the preceding items

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(other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term **Indebtedness** includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

**Investments** means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If Mercer or any Restricted Subsidiary of Mercer sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of Mercer such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of Mercer, Mercer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of Mercer's Investments in such Restricted Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption **Certain Covenants Restricted Payments**. The acquisition by Mercer or any Restricted Subsidiary of Mercer of a Person that holds an Investment in a third Person will be deemed to be an Investment by Mercer or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption **Certain Covenants Restricted Payments**. Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

**Lien** means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

**Moody's** means Moody's Investors Service, Inc.

**Net Income** means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however:

- (1) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with:
  - (a) any Asset Sale; or
  - (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries;
- (2) any extraordinary gain, together with any related provision for taxes on such extraordinary gain;
- (3) any foreign exchange gain (loss) on Indebtedness; and
- (4) any marked to market gain (loss) whether realized or accrued, without duplication, on Hedging Obligations.

**Net Proceeds** means the aggregate cash proceeds received by Mercer or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in



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each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and amounts required to be applied to the repayment of Indebtedness, other than Indebtedness under a Credit Facility, secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

Non-Recourse Debt means Indebtedness as to which neither Mercer nor any of its Restricted Subsidiaries:

- (1) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness);
- (2) is directly or indirectly liable as a guarantor or otherwise; or
- (3) constitutes the lender.

Note Guarantee means the Guarantee by each Guarantor of Mercer's obligations under the Indenture and the Senior Notes, executed pursuant to the provisions of the Indenture.

Obligations means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

Permitted Business means any business conducted by Mercer and its Restricted Subsidiaries on the date of the Indenture, including the pulp manufacturing and sales business, production and generation and sales of electricity generated as a by-product of or from, or utilizing the facilities of, any Permitted Business and any business reasonably related thereto, ancillary or complimentary to reasonable extensions thereof, including, without limitation, transportation, logistics and wood harvesting and procurement.

Permitted Investments means:

- (1) any Investment in Mercer or in a Restricted Subsidiary of Mercer;
- (2) any Investment in Cash Equivalents;
- (3) any Investment by Mercer or any Restricted Subsidiary of Mercer in a Person, if as a result of such Investment:
  - (a) such Person becomes a Restricted Subsidiary of Mercer; or
  - (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Mercer or a Restricted Subsidiary of Mercer;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "Repurchase at the Option of Holders - Asset Sales";
- (5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of Mercer or out of the net proceeds of an issue or sale of Equity Interest of Mercer (other than Disqualified Stock) so long as such acquisition occurs within 60 days thereafter;

- (6) any Investments received in compromise or resolution of:
  - (a) obligations of trade creditors or customers that were incurred in the ordinary course of business of Mercer or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or
  - (b) litigation, arbitration or other disputes;
- (7) Investments represented by Hedging Obligations;
- (8) loans or advances to employees made in the ordinary course of business of Mercer or any Restricted Subsidiary of Mercer in an aggregate principal amount not to exceed \$2.0 million at any one time outstanding;

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- (9) repurchases of the Senior Notes and repurchases and/or redemptions of the 2013 Senior Notes;
  - (10) extensions of trade credit or advances to customers and/or suppliers on commercially reasonable terms in the ordinary course of business;
  - (11) Guarantees of Indebtedness of Mercer or any of its Restricted Subsidiaries issued in accordance with the covenant entitled Incurrence of Indebtedness and Issuance of Preferred Stock ;
  - (12) Investments resulting from payment of consolidated taxes that include Unrestricted Subsidiaries;
  - (13) other Investments in any Person (other than an Affiliate of Mercer that is not a Subsidiary of Mercer) having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (13) that are at the time outstanding not to exceed \$20.0 million; and
  - (14) for the avoidance of doubt, any Restricted Investments existing on the date of the Indenture.
- Permitted Liens means:
- (1) Liens on assets of Mercer or any of its Restricted Subsidiaries securing Indebtedness and other Obligations under Credit Facilities that was permitted by the terms of the Indenture to be incurred and/or securing Hedging Obligations related thereto;
  - (2) Liens in favor of Mercer;
  - (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with Mercer or any Subsidiary of Mercer; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with Mercer or the Subsidiary;
  - (4) Liens on property (including Capital Stock) existing at the time of acquisition of the property by Mercer or any Subsidiary of Mercer; provided that such Liens were in existence prior to, such acquisition, and not incurred in contemplation of, such acquisition;
  - (5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds, letters of credit or other obligations of a like nature incurred in the ordinary course of business;
  - (6) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock covering only the assets acquired with or financed by such Indebtedness;
  - (7) Liens existing on the date of the Indenture or from contractual commitments existing on the date of the Indenture;

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- (8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; provided that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;
  
- (9) Liens imposed by law, such as carriers , warehousemen s, landlord s and mechanics Liens, in each case, incurred in the ordinary course of business;
  
- (10) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;
  
- (11) Liens created for the benefit of (or to secure) the Senior Notes;

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- (12) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the Indenture; provided, however, that:
- (a) the new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and
  - (b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;
- (13) Liens securing Hedging Obligations made in the ordinary course of business and not for speculation; provided that such Hedging Obligations are permitted under the Indenture;
- (14) Liens resulting from sale and leaseback transactions otherwise permitted by the covenant described above under the caption **Certain Covenants – Limitation on Sale and Leaseback Transactions** at any one time outstanding that do not exceed \$15.0 million; and
- (15) Liens incurred in the ordinary course of business of Mercer or any Subsidiary of Mercer with respect to obligations at any one time outstanding that do not exceed \$20.0 million.

**Permitted Refinancing Indebtedness** means any Indebtedness of Mercer or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge other Indebtedness of Mercer or any of its Restricted Subsidiaries (other than intercompany Indebtedness); provided that:

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);
- (2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;
- (3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is subordinated in right of payment to the Senior Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Senior Notes on terms at least as favorable to the holders of Senior Notes as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and
- (4) such Indebtedness is incurred either by Mercer or by the Restricted Subsidiary who is the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged.

**Person** means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

**Pro Forma Cost Savings** means, with respect to any four-quarter period, the reduction in net costs and expenses that:



- (1) were actually implemented prior to the Calculation Date in connection with or as a result of an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action and that are supportable and quantifiable by the underlying accounting records; or

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- (2) relate to an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action and that Mercer reasonably determines will actually be realized within 12 months of the date of the closing of the acquisition, Investment, disposition, merger, consolidation or discontinued operation or specified action.

Restricted Investment means an Investment other than a Permitted Investment.

Restricted Subsidiary of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

Rosenthal means Zellstoff-und Papierfabrik Rosenthal GmbH and any and all successors thereto.

S&P means Standard & Poor's Ratings Group.

Significant Subsidiary means any Subsidiary that would be a significant subsidiary as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the Indenture.

Stated Maturity means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the date of the Indenture, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

Subsidiary means, with respect to any specified Person:

- (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders agreement that effectively transfers voting power) to vote in the election of directors, managers of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

- (2) any partnership:

(a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person; or

(b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

Trading Day means:

- (1) if Mercer's common Capital Stock is quoted on NASDAQ, a day on which trades may be made on NASDAQ; or

- (2) if Mercer's common Capital Stock is not so listed, admitted for trading or quoted, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, executive order or otherwise to close.

Unrestricted Subsidiary means each of Stendal Pulp Holding GmbH, Zellstoff Stendal GmbH, Zellstoff Stendal Holz GmbH, Zellstoff Stendal Transport GmbH, ZS Holz Beteiligungs GmbH (or any successor to any of them) or any other Subsidiary of Mercer that is designated by the Board of Directors of Mercer as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

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- (2) except as permitted by the covenant described above under the caption Certain Covenants Transactions with Affiliates , is not party to any agreement, contract, arrangement or understanding with Mercer or any Restricted Subsidiary of Mercer unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to Mercer or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Mercer;
  
- (3) is a Person with respect to which neither Mercer nor any of its Restricted Subsidiaries has any direct or indirect obligation:
  - (a) to subscribe for additional Equity Interests; or
  
  - (b) to maintain or preserve such Person s financial condition or to cause such Person to achieve any specified levels of operating results; and
  
- (4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of Mercer or any of its Restricted Subsidiaries.

Voting Stock of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

Weighted Average Life to Maturity means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying:
  - (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness; by
  
  - (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
  
- (2) the then outstanding principal amount of such Indebtedness.

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**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following summary describes the material U.S. federal income tax consequences of the purchase, ownership and disposition of the Additional Senior Notes, but does not purport to be a complete analysis of all the potential tax considerations. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended, which we refer to herein as the Code, United States Treasury regulations promulgated under the Code, which we refer to herein as the Treasury Regulations, judicial decisions and published rulings and administrative pronouncements, each as of the date hereof and all of which are subject to change at any time (possibly with retroactive effect) and differing interpretations. No ruling has been or will be sought from the Internal Revenue Service, which we refer to as the IRS, regarding any tax consequences relating to the matters discussed herein. Consequently, no assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of those summarized below.

This summary pertains only to the Additional Senior Notes and does not apply to the Existing Senior Notes. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to particular holders in light of their individual circumstances and does not deal with holders subject to special treatment under U.S. federal income tax law, including, without limitation:

financial institutions;

insurance companies;

tax-exempt organizations;

real estate investment trusts or regulated investment companies;

dealers in securities, commodities or foreign currencies;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

persons holding Additional Senior Notes as part of a hedge, straddle, conversion transaction or other integrated transaction or risk reduction strategy;

U.S. persons whose functional currency is not the U.S. dollar;

entities classified as partnerships for U.S. federal income tax purposes and investors therein;

persons deemed to sell their Additional Senior Notes under the constructive sale provisions of the Code;

persons subject to the alternative minimum tax; and

U.S. expatriates and former long-term residents of the United States.

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This summary assumes holders will hold their Additional Senior Notes as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). This summary applies only to holders who purchase Additional Senior Notes in this offering and at the price set forth herein, and does not discuss any U.S. federal income tax considerations for subsequent purchasers. In addition, this summary does not discuss any U.S. federal estate or gift tax laws or the tax laws of any applicable foreign, state, local or other jurisdiction.

**This summary of the material U.S. federal income tax consequences is for general information purposes only and is not tax advice for any particular holder. Prospective purchasers should consult their tax advisors concerning the U.S. federal income tax consequences with respect to purchasing, owning or disposing of the Additional Senior Notes in light of their particular situations, as well as any consequences arising under the U.S. federal estate or gift tax laws, the Medicare contributions tax or the laws of any state, local, foreign or other taxing jurisdiction.**

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As used herein, the term "U.S. Holder" means a beneficial owner of an Additional Senior Note that is for U.S. federal income tax purposes:

- (1) an individual who is a citizen or resident of the United States;
- (2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- (4) a trust (A) subject to the primary supervision of a U.S. court and the control of one or more U.S. persons over all substantial decisions of the trust or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

A beneficial owner of an Additional Senior Note that is not a U.S. Holder and is not a partnership or pass-through entity for U.S. federal income tax purposes, which we refer to as a "Non-U.S. Holder", is subject to special U.S. federal income tax considerations, some of which are discussed below.

If an entity treated as a partnership for U.S. federal income tax purposes holds an Additional Senior Note, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Entities that are treated as partnerships for U.S. federal income tax purposes and partners in such partnerships holding Additional Senior Notes should consult their tax advisors.

### **U.S. Holders**

#### *Payments of Stated Interest*

Payments of stated interest (other than pre-issuance accrued interest described below) on an Additional Senior Note will be taxable to a U.S. Holder as ordinary interest income at the time they are received or accrued, depending on the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

#### *Pre-Issuance Accrued Interest*

A portion of the purchase price of the Additional Senior Notes is attributable to the amount of interest accrued for the period from June 1, 2013 until the date of issuance, referred to as the "pre-issuance accrued interest". A portion of the first interest payment on the Additional Senior Notes is a return of the pre-issuance accrued interest, rather than an amount payable on the Additional Senior Notes. The portion of the first interest payment on your Additional Senior Notes equal to the pre-issuance accrued interest should be excluded from your income and, when received, will reduce your tax basis in your Additional Senior Notes.

#### *Amortizable Bond Premium*

If you purchase an Additional Senior Note for an amount in excess of its principal amount (excluding any amount properly allocable to pre-issuance accrued interest, as described above under "Pre-Issuance Accrued Interest"), you will be considered to have purchased the Additional Senior Note with amortizable bond premium in an amount equal to such excess. You may elect to amortize this bond premium, using a constant yield method, over the term of the Additional Senior Note. However, because an Additional Senior Note may be redeemed by us prior to maturity at a premium, special rules apply that could result in a deferral of the amortization of a portion of the bond premium until later in the term of the Additional Senior Note. You may generally use the amortizable bond premium allocable to an accrual period to offset stated interest required to be included in your gross income with respect to the Additional Senior Note in that accrual period. You must reduce your tax basis in the Additional Senior Note by the amount of premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations owned by you during that taxable year and thereafter acquired by you and may be revoked only with the consent of the IRS. If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on the disposition of the Additional Senior Note.





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**Table of Contents***Additional Amounts or Interest Paid*

In certain circumstances (for example, see Description of Notes Optional Redemption and Change of Control ), we may elect or be obligated to pay amounts on an Additional Senior Note that are in excess of stated interest or principal. These potential payments may implicate the provisions of the Treasury Regulations relating to contingent payment debt instruments . One or more contingencies will not cause an Additional Senior Note to be treated as a contingent payment debt instrument if, as of the issue date, each such contingency is considered remote or incidental . We believe that the potential for additional payments on an Additional Senior Note should not cause the Additional Senior Note to be treated as a contingent payment debt instrument, and that therefore any such additional payments would be taxable as ordinary interest income (in the case of Additional Interest) or additional proceeds in a redemption of the Additional Senior Note (in the case of an optional redemption by us or a repurchase pursuant to a Change of Control Offer). Our position is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position, but not on the IRS. If the IRS were to successfully challenge our determination, with the result that an Additional Senior Note was treated as a contingent payment debt instrument, U.S. Holders would be required to: (i) accrue interest income based on a comparable yield and a projected payment schedule, which may require inclusion of interest income at a higher rate than the stated interest rate on the Additional Senior Notes, and (ii) treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange or redemption of an Additional Senior Note.

*Sale, Exchange, Redemption or Other Disposition*

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, redemption, retirement or other disposition of an Additional Senior Note, equal to the difference between the amount realized by the U.S. Holder in such transaction (other than any portion attributable to accrued and unpaid stated interest with respect to the Additional Senior Note, which will be taxable separately as ordinary interest income to the extent not previously included in gross income, as discussed above) and the U.S. Holder's adjusted tax basis in such Additional Senior Note. A U.S. Holder's adjusted tax basis in an Additional Senior Note will, in general, be the original cost of the Additional Senior Note to the U.S. Holder decreased by any amortized bond premium and by any pre-issuance accrued interest previously received. Such gain or loss will be long-term capital gain or loss if the U.S. Holder has held the Additional Senior Note for more than one year at the time of sale, exchange, redemption, retirement or other disposition. Under current law, long-term capital gains of certain non-corporate taxpayers (including individuals) are eligible for reduced rates of taxation as compared to the rates for ordinary income. The deductibility of capital losses is subject to limitations.

*Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to payments of principal and interest on an Additional Senior Note, and the proceeds of the sale of an Additional Senior Note before maturity, to U.S. Holders (other than certain exempt recipients). Backup withholding, currently at a rate of 28%, will apply to such payments if the U.S. Holder fails to provide us or our paying agent with the U.S. Holder's correct social security or other taxpayer identification number, referred to as a TIN , on IRS Form W-9 (or suitable substitute form), certify under penalties of perjury that the U.S. Holder is not subject to backup withholding, and otherwise comply with applicable requirements of the backup withholding rules. If the U.S. Holder does not provide us or our paying agent with its correct social security number or other TIN, the U.S. Holder may be subject to penalties imposed by the IRS, and payments that are made to such U.S. Holder may be subject to backup withholding. If backup withholding applies, the payor is required to withhold (at the applicable rate) on any payment made to the U.S. Holder. Backup withholding is not an additional tax; any amounts so withheld may be credited against the U.S. federal income tax liability of the U.S. Holder subject to the withholding. If backup withholding results in an overpayment of U.S. federal income taxes, a refund or credit may be obtained from the IRS if required information is properly furnished to the IRS in a timely manner.

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### *Medicare Contribution Tax*

For taxable years beginning after December 31, 2012, U.S. Holders who are individuals must pay a 3.8% Medicare contribution tax on the lesser of (i) that holder's net investment income for the relevant taxable year and (ii) the excess of that holder's modified adjusted gross income for the taxable year over a certain threshold. Estates and trusts must pay this tax on a similar tax base. Net investment income includes, among other items, interest on, and gains from the sale or other taxable disposition of, the Additional Senior Notes. Prospective investors should consult their tax advisors regarding the effect, if any, of these rules on their investment in the Additional Senior Notes.

### **Non-U.S. Holders**

#### *Payments of Stated Interest*

Payments of stated interest on an Additional Senior Note to a Non-U.S. Holder generally will be exempt from U.S. federal withholding tax, provided that:

the Non-U.S. Holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

the Non-U.S. Holder is not a controlled foreign corporation that is related, directly or indirectly, to us through stock ownership within the meaning of the applicable sections of the Code; and

prior to the payment, the Non-U.S. Holder certifies, under penalties of perjury, on a properly completed, executed and delivered IRS Form W-8BEN, or appropriate substitute form, that it is not a U.S. person for U.S. federal income tax purposes.

If a Non-U.S. Holder is engaged in a U.S. trade or business, and interest received by the Non-U.S. Holder on an Additional Senior Note is effectively connected with the conduct of that trade or business (and, if required by an applicable U.S. income tax treaty, is attributable to a permanent establishment in the United States maintained by the Non-U.S. Holder), the Non-U.S. Holder will be exempt from the withholding of U.S. federal income tax described above, so long as the Non-U.S. Holder certifies, under penalties of perjury on a properly completed, executed and delivered IRS Form W-8ECI or substantially similar substitute form, that interest on the Additional Senior Note is effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Holder. In such a case, the Non-U.S. Holder will be subject to U.S. federal income tax on interest it receives on a net income basis in the same manner as if the Non-U.S. Holder were a U.S. Holder. If the Non-U.S. Holder is a corporation, effectively connected income may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable U.S. income tax treaty). If a Non-U.S. Holder is not eligible for relief under one of the exceptions described above, the Non-U.S. Holder may nonetheless qualify for an exemption from, or a reduced rate of, U.S. federal income and withholding tax under a U.S. income tax treaty. In general, a treaty-based exemption or reduced rate of tax applies only if the Non-U.S. Holder provides a properly completed IRS Form W-8BEN or substantially similar form claiming benefits under an applicable U.S. income tax treaty.

#### *Sale, Exchange, Redemption or Other Taxable Disposition of Additional Notes*

Any gain realized (but excluding any amounts attributable to accrued but unpaid interest, which is treated as interest as discussed above in Payments of Stated Interest ) by a Non-U.S. Holder on a sale, exchange, retirement, redemption, repurchase or other taxable disposition of an Additional Senior Note generally will be exempt from U.S. federal income and withholding tax, unless:

that gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the U.S. and, if so provided in an applicable income tax treaty, the gain is attributable to a permanent establishment or, for individuals, a fixed base of the Non-U.S. Holder (in which case the Non-U.S. Holder will generally be subject to U.S. federal income tax on such gain on a net income basis in the

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same manner as if it were a U.S. Holder and, if the Non-U.S. Holder is a foreign corporation, it may be subject to an additional branch profits tax equal to 30% or such lower rate provided by an applicable U.S. income tax treaty of its effectively connected earnings and profits for the taxable year, subject to adjustments); or

in the case of a nonresident alien individual, the holder is present in the U.S. for 183 or more days in the taxable year of disposition and certain other conditions are satisfied.

Any amount received by a Non-U.S. Holder on a sale or other disposition attributable to accrued but unpaid interest will be treated as such. See Payments of Stated Interest above.

*Backup Withholding and Information Reporting*

We will, where required, report to Non-U.S. Holders and to the IRS the amount of any principal and interest paid on the Additional Senior Notes. Copies of these information returns also may be made available under the provisions of a specific treaty or other agreement to the tax authorities of the country in which the Non-U.S. Holder resides.

Backup withholding, currently at a rate of 28%, will not apply to payments of interest to a Non-U.S. Holder if either (i) the requisite certification that the Non-U.S. Holder is not a U.S. person for U.S. federal income tax purposes has been received or (ii) an exemption from backup withholding has otherwise been established, provided that neither we nor our paying agent has actual knowledge, or reason to know, that the Non-U.S. Holder is a U.S. person for U.S. federal income tax purposes that is not an exempt recipient or that the conditions of any other exemption are not satisfied.

Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale or other disposition of Additional Senior Notes within the U.S. or that are conducted through certain U.S.-related financial intermediaries, unless the Non-U.S. Holder certifies under penalties of perjury as to its non-U.S. status or such Non-U.S. Holder otherwise establishes an exemption (provided that neither the broker nor intermediary has actual knowledge or reason to know that such owner is a U.S. person or that the conditions of any other exemptions are not in fact satisfied).

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules from payments to a Non-U.S. Holder may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

THE PRECEDING DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. WE URGE EACH PROSPECTIVE INVESTOR TO CONSULT ITS TAX ADVISOR REGARDING THE PARTICULAR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF THE ADDITIONAL SENIOR NOTES, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

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**CERTAIN ERISA CONSIDERATIONS**

The following is a summary of certain considerations associated with the purchase of the Additional Senior Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, which we refer to herein as "ERISA", plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code, governmental plans, non-U.S. plans and certain church plans that are subject to provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code, which we refer to collectively as "Similar Laws", and entities whose underlying assets are considered to include plan assets under ERISA of any such plan, account or arrangement, each of which we refer to herein as a "Plan".

**General Fiduciary Matters**

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code, each of which we refer to herein as an "ERISA Plan", and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Additional Senior Notes with any portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

**Prohibited Transaction Issues**

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest", within the meaning of Section 406 of ERISA, or "disqualified persons", within the meaning of Section 4975 of the Code, unless a statutory or administrative exemption is available. A party in interest, including a fiduciary of an ERISA Plan, or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code (and/or Similar Laws). In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Additional Senior Notes by an ERISA Plan with respect to which we, an underwriter, or a guarantor is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code (or comparable provisions under Similar Laws), unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or "PTCEs", that may apply to provide exemptive relief for direct or indirect prohibited transactions resulting from the acquisition and holding of the Additional Senior Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide exemptive relief from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan receives no less, and pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

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Because of the foregoing, the Additional Senior Notes should not be purchased or held by any person investing plan assets of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code and will not constitute a similar violation of any applicable Similar Laws.

**Representation**

Accordingly, by acceptance of an Additional Senior Note, each purchaser and subsequent transferee of an Additional Senior Notes will be deemed to have represented and warranted that (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Additional Senior Notes constitutes assets of any Plan and/or (ii) the purchase and holding of the Additional Senior Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive, nor should it be construed as legal advice. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Additional Senior Notes (or holding or disposing of the Additional Senior Notes) on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such transaction and whether an exemption would be applicable to such transaction.

**Table of Contents****UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement between us and Credit Suisse Securities (USA) LLC, or Credit Suisse, we have agreed to sell to Credit Suisse and Credit Suisse has agreed to purchase from us, \$50,000,000 principal amount of the Additional Senior Notes.

The underwriting agreement provides that Credit Suisse is obligated to purchase all of the Additional Senior Notes if any are purchased.

Credit Suisse proposes to offer the Additional Senior Notes initially at the public offering price on the cover page of this prospectus supplement. After the initial public offering, Credit Suisse may change the public offering price. The offering of the Additional Senior Notes by Credit Suisse is subject to receipt and acceptance and subject to Credit Suisse's right to reject any order in whole or in part. Credit Suisse may offer and sell the Additional Senior Notes through certain of its affiliates.

The following table summarizes the discounts and commissions we will pay:

	<b>Per Note</b>	<b>Total</b>
Underwriting discounts and commissions paid by us	2.250%	\$ 1,125,000

We estimate that our out-of-pocket expenses for this offering, including registration filing, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately \$0.6 million and are payable by us.

We have agreed that we will not, for a period of 60 days after the date of this prospectus supplement, without first obtaining the prior written consent of Credit Suisse (which may be withheld by Credit Suisse in its sole discretion), directly or indirectly, sell, offer, contract or grant any option to sell, pledge, transfer or establish an open put equivalent position within the meaning of Rule 16a-1 under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any debt securities of ours substantially similar to the Additional Senior Notes or exchangeable for or convertible into debt securities of ours substantially similar to the Additional Senior Notes, except for the Additional Senior Notes sold to Credit Suisse pursuant to the underwriting agreement.

We have agreed to indemnify Credit Suisse against certain liabilities, including liabilities under the Securities Act, or, if such indemnification is not available, to contribute to payments Credit Suisse may be required to make in respect of these liabilities.

Credit Suisse and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, market making, financing, brokerage activities and other financial and non-financial activities and services.

Credit Suisse has from time to time performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for us and for our affiliates, including the services referred to in the immediately preceding paragraph, in the ordinary course of business for which it has received and would receive customary compensation.

In the ordinary course of its various business activities, Credit Suisse and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of ours (directly, as collateral securing other obligations or otherwise) and/or persons and entities that have relationships with us. If Credit Suisse or its affiliates have a lending relationship

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with us, Credit Suisse and its affiliates may hedge their exposure to us consistent with their customary risk management policies. Typically, Credit Suisse and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Additional Senior Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Additional Senior Notes offered hereby. Credit Suisse and its respective affiliates may also communicate independent investment recommendations, market analysis or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such assets, securities and instruments.

The Additional Senior Notes will be fungible with the Existing Senior Notes for trading purposes from the date of issue, but there is currently no active market for the Existing Senior Notes. We do not intend to list the Senior Notes on any securities exchange or to arrange for quotation on any automated dealer quotation system. Credit Suisse has advised us that it presently intends to make a market in the Senior Notes as permitted by applicable laws; however, Credit Suisse is not obligated to do so and may discontinue such market-making at any time without providing any notice. Accordingly, no assurance can be given as to the liquidity of any trading market for the Senior Notes or that an active trading market for the Senior Notes will develop. If an active trading market for the Senior Notes does not develop, the market price and liquidity of the Senior Notes may be adversely affected. If the Senior Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

In connection with the offering, Credit Suisse may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales in excess of the principal amount of the Additional Senior Notes Credit Suisse is obligated to purchase, which creates a syndicate short position.

Syndicate covering transactions involve purchases of the Additional Senior Notes in the open market after the distribution has been completed in order to cover syndicate short positions. A short position is more likely to be created if Credit Suisse is concerned that there may be downward pressure on the price of the Additional Senior Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit Credit Suisse to reclaim a selling concession from a syndicate member when the notes originally sold by such syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions. These stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of the Additional Senior Notes or preventing or retarding a decline in the market price of the Additional Senior Notes. As a result, the price of the Additional Senior Notes may be higher than the price that might otherwise exist in the open market. These transactions, if commenced, may be discontinued at any time.

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**LEGAL MATTERS**

The validity of the Additional Senior Notes offered hereby and certain other legal matters in connection with the issuance and sale of the Additional Senior Notes will be passed upon for the Company by Sangra Moller LLP, Vancouver, British Columbia with respect to matters of Canadian law, and by Davis Wright Tremaine LLP, Seattle, Washington, with respect to matters of U.S. law. Certain legal matters in connection with the issuance and sale of the Additional Senior Notes offered hereby will be passed upon for the underwriter by Latham & Watkins LLP, Los Angeles, California, with respect to matters of U.S. law.

**EXPERTS**

The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 31, 2012, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

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**PROSPECTUS**

**MERCER INTERNATIONAL INC.**

**\$500,000,000**

**Debt Securities**

**Common Stock**

**Preferred Stock**

**Warrants to Purchase Common Stock or Debt Securities**

**Any Combination of the Above**

From time to time, we may offer and sell in one or more offerings:

debt securities;

shares of our common stock, par value \$1.00 per share;

preferred stock, par value \$1.00 per share;

warrants to purchase common stock or debt securities; or

any combination of the above.

We may sell any combination of these securities in one or more offerings, up to an aggregate offering price of \$500,000,000, in amounts, at prices and on terms to be determined at the time of each offering thereof. Each time we offer securities using this prospectus, we will provide specific terms of the securities and the offering in one or more supplements to this prospectus. The prospectus supplements may also add to, update or change information in this prospectus and will also describe the specific manner in which we will offer the securities. The securities may be offered separately or together in any combination and as a separate series.

This prospectus may not be used by us to sell securities unless accompanied by a prospectus supplement. You should carefully read this prospectus and any prospectus supplement, including the information incorporated by reference, before you invest in any of our securities.

This prospectus may not be used to consummate a sale of securities unless accompanied by a prospectus supplement.

## Edgar Filing: MERCER INTERNATIONAL INC. - Form 424B5

Our common stock is listed on the NASDAQ Global Market under the symbol `MERC` and listed in U.S. dollars on the Toronto Stock Exchange under the symbol `MRI.U`.

**Investing in the securities described in this prospectus involves risks. You should carefully review the risks and uncertainties described under the heading Risk Factors contained on page 3 of this prospectus and any risk factors set forth in each applicable prospectus supplement and in the documents incorporated or deemed to be incorporated by reference into this prospectus or any applicable prospectus supplement.**

**Neither the Securities and Exchange Commission nor any State securities commission has approved or disapproved of these securities or passed upon the adequacy of accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

We may sell these securities on a continuous or delayed basis directly, through agents, dealers or underwriters as designated from time to time, or through a combination of these methods. We reserve the sole right to accept, and together with any agents, dealers and underwriters, reserve the right to reject, in whole or in part, any proposed purchase of securities. If any agents, dealers or underwriters are involved in the sale of any securities, the applicable prospectus supplement will set forth any applicable fees, commissions or discounts and over-allotment options. The price to the public of such securities and our net proceeds from the sale of securities also will be set forth in the applicable prospectus supplement.

**The date of this prospectus is December 3, 2012.**

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf registration process, we may, from time to time, offer and sell debt securities, common stock, preferred stock, warrants to purchase common stock or debt securities or any combination of these securities in one or more offerings up to an aggregate offering price of \$500,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we offer securities under this prospectus, we will provide you with a prospectus supplement that will contain more specific information about the terms of that offering, including the specific amounts, prices and terms of the securities offered. We may also add, update or change in a prospectus supplement any of the information contained in this prospectus or in documents we have incorporated by reference into this prospectus. In addition, any prospectus supplement relating to a particular offering may be updated or supplemented. This prospectus, together with the applicable prospectus supplements and the documents incorporated by reference into this prospectus, includes all material information relating to these offerings. To the extent that any statement that we make in a prospectus supplement is inconsistent with statements made in this prospectus, the statements made in this prospectus will be deemed modified or superseded by those made in a prospectus supplement. You should carefully read both this prospectus and any applicable prospectus supplement, together with additional information described under [Where You Can Find More Information](#) and [Incorporation of Certain Information by Reference](#), before buying any of the securities being offered.

**This prospectus may not be used to consummate a sale of securities unless it is accompanied by a prospectus supplement.**

You should rely only on the information contained or incorporated by reference in this prospectus and any applicable prospectus supplement. We have not authorized any other person to provide you with additional or different information. If anyone provides you with different or inconsistent information, you should not rely on it.

The distribution of this prospectus and any offering of securities may be restricted by law in certain jurisdictions. You should inform yourself about, and observe, any of these restrictions. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which the offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make the offer or solicitation. You should assume that the information in this prospectus or any applicable prospectus supplement is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any applicable prospectus supplement, or any sale of a security.

In this prospectus, please note the following:

references to we, our, us, the Company or Mercer mean Mercer International Inc. and its subsidiaries, unless the context clearly suggests otherwise;

refers to Euros, the lawful currency adopted by most members of the European Union, unless otherwise stated; \$ refers to U.S. dollars; and C\$ refers to Canadian dollars; and

MWh refers to megawatt hours.



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Statements in this prospectus or incorporated by reference into this prospectus concerning the production capacity of our pulp mills are management estimates based primarily on historically achieved levels of production and assumptions regarding maintenance downtime. Statements concerning electrical generating capacity at our mills are also management estimates based primarily on our expected pulp production (which largely determines the amount of electricity we can generate) and assumptions regarding maintenance downtime, in each case within manufacturers' specifications of capacity.

**EXCHANGE RATES**

Our reporting currency and financial statements incorporated by reference in this prospectus are in Euros, as a significant majority of our business transactions are originally denominated in Euros. We translate non-Euro denominated assets and liabilities at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the period.

The following table sets out exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, referred to as the Noon Buying Rate, for the conversion of Euros and Canadian dollars to U.S. dollars in effect at the end of the following periods, the average exchange rates during these periods (based on daily Noon Buying Rates) and the range of high and low exchange rates for these periods:

	2007	Years Ended December 31,			2011	Nine Months Ended September 30,	
		2008	2009	2010		2012	2011
				( / \$)			
End of period	0.6848	0.7184	0.6977	0.7536	0.7708	0.7778	0.7435
High for period	0.6729	0.6246	0.6623	0.6879	0.6723	0.7428	0.6723
Low for period	0.7750	0.8035	0.7970	0.8362	0.7736	0.8290	0.7726
Average for period	0.7304	0.6826	0.7176	0.7541	0.7186	0.7807	0.7110
				( C \$ / \$)			
End of period	0.9881	1.2240	1.0461	1.0009	1.0168	0.9837	1.0389
High for period	0.9168	0.9717	1.0289	0.9960	0.9448	0.9710	0.9448
Low for period	1.1852	1.2971	1.2995	1.0776	1.0605	1.0417	1.0389
Average for period	1.0740	1.0660	1.1412	1.0298	0.9887	1.0022	0.9778

The Noon Buying Rate is published on a weekly basis by the Federal Reserve Board. On November 23, 2012, the date of the most recent Daily Noon Buying Rate available before the filing of this prospectus, the Noon Buying Rate for the conversion of Euros and Canadian dollars to U.S. dollars was 0.7717 per U.S. dollar and C\$0.9927 per U.S. dollar.

In addition, certain financial information relating to our Celgar mill included in this prospectus is stated in Canadian dollars while we report our financial results in Euros. The following table sets out exchange rates, based on the noon rate, referred to as the Daily Noon Rate, provided by the Bank of Canada, for the conversion of Canadian dollars to Euros in effect at the end of the following periods, the average exchange rates during these periods (based on daily noon rates) and the range of high and low exchange rates for these periods:

	2007	Years Ended December 31,			2011	Nine Months Ended September 30,	
		2008	2009	2010		2012	2011
				( C \$ / € )			
End of period	1.4428	1.7046	1.5000	1.3319	1.3193	1.2646	1.3971
High for period	1.3448	1.4489	1.4936	1.2478	1.2847	1.2153	1.2847
Low for period	1.5628	1.7316	1.6920	1.5067	1.4305	1.3446	1.4305
Average for period	1.4690	1.5603	1.5851	1.3671	1.3761	1.2847	1.3752

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On November 30, 2012, the date of the most recent publication of the Daily Noon Rate before the filing of this prospectus, the Daily Noon Rate for the conversion of Canadian dollars to Euros was C\$1.2921 per Euro.

### **MERCER INTERNATIONAL INC.**

#### **Our Company**

Mercer International Inc. is a Washington corporation and our common stock is listed on the NASDAQ Global Market under the symbol **MERC** and listed in U.S. dollars on the Toronto Stock Exchange under the symbol **MRI.U**.

We operate in the pulp business and are the largest publicly traded producer of market northern bleached softwood kraft, or **NBSK**, pulp in the world. We are the sole NBSK pulp producer, and the only producer of pulp for resale, known as **market pulp**, in Germany, which is the largest pulp import market in Europe. We currently employ approximately 1,039 people at our German operations, 439 people at our Celgar mill in Western Canada and 17 people at our office in Vancouver, British Columbia, Canada. Our operations are located in Eastern Germany and Western Canada. We operate three NBSK pulp mills with a consolidated annual production capacity of approximately 1.5 million air-dried metric tonnes ( **ADMTs** ):

**Rosenthal mill.** Our wholly-owned subsidiary, Rosenthal, owns and operates the Rosenthal mill, a modern, efficient ISO 9001 and 14001 certified NBSK pulp mill that has an annual production capacity of approximately 345,000 ADMTs. Additionally, the Rosenthal mill is a significant producer of **green** energy and exported 161,286 MWh of electricity in 2011, resulting in approximately 14.9 million in annual revenues. The Rosenthal mill is located near the town of Blankenstein, Germany approximately 300 kilometers south of Berlin.

**Stendal mill.** Our 74.9% owned subsidiary, Stendal, owns and operates the Stendal mill, a state-of-the-art, single-line, ISO 9001 and 14001 certified NBSK pulp mill that has an annual production capacity of approximately 645,000 ADMTs. The Stendal mill is also a significant producer of **green** energy and exported 350,758 MWh of electricity in 2011, resulting in approximately 32.5 million in annual revenues. The Stendal mill is located near the town of Stendal, Germany, approximately 130 kilometers west of Berlin.

**Celgar mill.** Our wholly-owned subsidiary, Celgar, owns and operates the Celgar mill, a modern, efficient ISO 9001 and 14001 certified NBSK pulp mill with an annual production capacity of approximately 520,000 ADMTs. The Celgar mill also produces **green** energy and exported 140,069 MWh of electricity in 2011, resulting in approximately C\$14.5 million in annual revenues. The Celgar mill is located near the city of Castlegar, British Columbia, Canada, approximately 600 kilometers east of Vancouver, British Columbia, Canada.

Our principal executive offices are located at Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8, and our telephone number is (604) 684-1099.

### **SECURITIES WE MAY OFFER**

#### **Types of Securities**

The types of securities that we may offer and sell from time to time by this prospectus are:

one or more series of debt securities;

shares of our common stock;

shares of our preferred stock;

warrants to purchase common stock or debt securities; and

any combination of the above.



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In this prospectus, we will refer to the debt securities, common stock, preferred stock and warrants to purchase common stock or debt securities collectively as securities. The total dollar amount of all securities that we may issue under this prospectus will not exceed \$500,000,000. We will determine, at the time of the offering, the type, amount and price of the securities we will sell and other terms on which we will sell them. We may sell securities to or through underwriters, through agents or dealers or directly to investors on a continuous or delayed basis.

## **Prospectus Supplements**

This prospectus provides you with a general description of the securities we may offer. This summary is not meant to be a complete description of such securities. Each time we offer a type or series of securities under this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of the offering. The prospectus supplement may also add to or change information contained in this prospectus. In that case, the prospectus supplement should be read as superseding this prospectus.

In each prospectus supplement we will include the following information:

the type and amount of securities which we propose to sell;

the offering price of the securities;

the names of the underwriters, agents or dealers, if any, through or to which we sell the securities;

the compensation, if any, of those underwriters, agents or dealers;

information regarding over-allotment options, if any;

information about the securities exchange, if any, on which the securities will be listed or traded;

material United States federal income tax considerations applicable to the securities, where necessary; and

any other material information about the offering and sale of the securities.

For more details on the terms of the securities, you should read the exhibits filed with our registration statement, of which this prospectus is part, and the documents filed with the SEC in connection with any particular offering of the securities. You should also read both this prospectus and any prospectus supplement, together with additional information described under the headings **Where You Can Find More Information** and **Incorporation of Certain Information by Reference**.

The distribution of this prospectus may be restricted by law in certain jurisdictions. You should inform yourself about, and observe, any of these restrictions. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which the offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make the offer or solicitation.

**This prospectus may not be used to consummate a sale of securities unless it is accompanied by a prospectus supplement.**

**Table of Contents****USE OF PROCEEDS**

Except as may otherwise be stated in the applicable prospectus supplement, we currently intend to use the net proceeds from the sale of the securities that we may offer and sell from time to time by this prospectus:

for general corporate and working capital purposes;

to repay, refinance, repurchase or otherwise retire existing indebtedness;

for capital expenditures;

for financing future strategic investment opportunities; and

as otherwise disclosed in any supplement to this prospectus.

The prospectus supplement for a particular offering will provide a more detailed description of the use of net proceeds from such offering.

**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratio of earnings to fixed charges for the periods indicated. For the purposes of computing the ratio of earnings to fixed charges, earnings consist of income (loss) before income taxes, minority interest, income (loss) for equity investee and fixed charges. Fixed charges consist of interest expense plus capitalized interest. We have not included a ratio of earnings to combined fixed charges and preferred stock dividends because we did not have any preferred stock outstanding during the periods presented below.

	Years Ended December 31,					Nine Months Ended September 30,
	2007	2008	2009	2010	2011	2012
Ratio of earnings to fixed charges	1.50	(0.23)	(0.17)	2.31	1.92	1.03

**DESCRIPTION OF DEBT SECURITIES**

This summary, together with the additional information we include in any applicable prospectus supplements, summarizes the material terms and provisions of the debt securities that we may offer under this prospectus. While the terms we have summarized below will generally apply to any future debt securities we may offer under this prospectus, we will describe the particular terms of any debt securities that we may offer in more detail in the applicable prospectus supplement. The terms of any debt securities we offer under a prospectus supplement may differ from the terms we describe below.

The debt securities may be either secured or unsecured and will either be senior debt securities or subordinated debt securities. We will issue the senior notes under the senior indenture which we will enter into with one or more trustees. We will issue the subordinated notes under the subordinated indenture which we will enter into with one or more trustees. We have filed forms of these documents as exhibits to the registration statement of which this prospectus forms a part. We use the term *indentures* to refer to both the senior indenture and the subordinated indenture.

The indentures will be qualified under the *Trust Indenture Act of 1939*, as amended, or the *Trust Indenture Act*. We use the term *debenture trustee* to refer to either the senior trustee or the subordinated trustee, as applicable.



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The following summaries of the material provisions of the senior notes, the subordinated notes and the indentures are subject to, and qualified in their entirety by reference to, all of the provisions of the indenture applicable to a particular series of debt securities. We urge you to read the applicable prospectus supplements related to the debt securities that we sell under this prospectus, as well as the complete indentures that contain the terms of the debt securities. Except as we may otherwise indicate, the terms of the senior indenture and the subordinated indenture are identical.

### **General**

We will describe in the applicable prospectus supplement the terms relating to a series of debt securities, including, to the extent applicable:

the title;

the principal amount being offered and, if a series, the total amount authorized and the total amount outstanding;

any limit on the amount that may be issued;

whether or not we will issue the series of debt securities in global form and, if so, the terms and who the depository will be;

the maturity date;

the principal amount due at maturity and whether the debt securities will be issued with any original issue discount;

whether and under what circumstances, if any, we will pay additional amounts on any debt securities held by a person who is not a U.S. person for U.S. federal income tax purposes, and whether we can redeem the debt securities if we have to pay such additional amounts;

the annual interest rate, which may be fixed or variable, or the method for determining the rate, the date interest will begin to accrue, the dates interest will be payable and the regular record dates for interest payment dates or the method for determining such dates;

whether or not the debt securities will be secured or unsecured, and the terms of any secured debt;

whether or not the debt securities will be senior or subordinated, and the terms of the subordination of any series of subordinated debt;

place where payments will be payable;

restrictions on transfer, sale or other assignment, if any;

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our right, if any, to defer payment of interest and the maximum length of any such deferral period;

the date, if any, after which, the conditions upon which, and the price at which we may, at our option, redeem the series of debt securities pursuant to any optional or provisional redemption provisions, and any other applicable terms of those redemption provisions;

provisions for a sinking fund, purchase or other analogous fund, if any;

the date, if any, on which, and the price at which we are obligated, pursuant to any mandatory sinking fund or analogous fund provisions or otherwise, to redeem, or at the holder's option to purchase, the series of debt securities;

whether the indenture will restrict our ability and/or the ability of our subsidiaries to:

incur additional indebtedness;

issue additional securities;

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create liens;

pay dividends and make distributions in respect of our capital stock and the capital stock of our subsidiaries;

redeem capital stock;

place restrictions on our subsidiaries' ability to pay dividends, make distributions or transfer assets;

make investments or other restricted payments;

sell or otherwise dispose of assets;

enter into sale-leaseback transactions;

engage in transactions with shareholders and affiliates;

issue or sell stock of our subsidiaries; or

effect a consolidation or merger;

whether the indenture will require us to maintain any interest coverage, fixed charge, cash flow-based, asset-based or other financial ratios;

a discussion of any material or special U.S. federal income tax considerations applicable to the debt securities;

information describing any book-entry features;

the procedures for any auction and remarketing, if any;

the denominations in which we will issue the series of debt securities, if other than denominations of \$2,000 and any integral multiple thereof;

if other than U.S. dollars, the currency in which the series of debt securities will be denominated; and

any other specific terms, preferences, rights or limitations of, or restrictions on, the debt securities, including any events of default that are in addition to those described in this prospectus or any covenants provided with respect to the debt securities that are in addition to those described above, and any terms which may be required by us or advisable under applicable laws or regulations or advisable in connection with the marketing of the debt securities.

**Conversion or Exchange Rights**

We will set forth in the applicable prospectus supplements the terms, if any, on which a series of debt securities may be convertible into or exchangeable for common stock or other securities of ours or a third party, including the conversion or exchange rate, as applicable, or how it will be calculated, and the applicable conversion or exchange period. We will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. We may include provisions pursuant to which the number of our securities or the securities of a third party that the holders of the series of debt securities receive upon conversion or exchange would, under the circumstances described in those provisions, be subject to adjustment, or pursuant to which those holders would, under those circumstances, receive other property upon conversion or exchange, for example in the event of our merger or consolidation with another entity.

**Consolidation, Merger or Sale**

The indentures in the form initially filed as exhibits to the registration statement of which this prospectus forms a part do not contain any covenant that restricts our ability to merge or consolidate, or sell, convey, transfer or otherwise dispose of all or substantially all of our assets. However, any successor of ours or acquirer of such assets must assume all of our obligations under the indentures and the debt securities.

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If the debt securities are convertible into our other securities, the person with whom we consolidate or merge or to whom we sell all of our property must make provisions for the conversion of the debt securities into securities which the holders of the debt securities would have received if they had converted the debt securities before the consolidation, merger or sale.

### **Events of Default Under the Indentures**

Unless otherwise specified in the applicable prospectus supplement, the following are events of default under the indentures with respect to any series of debt securities that we may issue:

if we fail to pay interest when due and payable and our failure continues for 90 days and the time for payment has not been validly extended;

if we fail to pay the principal, or premium, if any, or to make payment required by any sinking fund or analogous fund when due and payable and the time for payment has not been validly extended;

if we fail to observe or perform any other covenant contained in the debt securities or the indentures, other than a covenant specifically relating to another series of debt securities, and our failure continues for 90 days after we receive notice from the debenture trustee or holders of at least 25% in aggregate principal amount of the outstanding debt securities of the applicable series; and

if specified events of bankruptcy, insolvency or reorganization occur.

If an event of default with respect to debt securities of any series occurs and is continuing, other than an event of default specified in the last bullet point above, the debenture trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may, by notice to us in writing (and to the debenture trustee if notice is given by such holders), declare the unpaid principal, premium, if any, and accrued interest, if any, due and payable immediately. If an event of default specified in the last bullet point above occurs with respect to us, the principal amount of and accrued interest, if any, of each series of debt securities then outstanding shall be due and payable without any notice or other action on the part of the debenture trustee or any holder.

The holders of a majority in principal amount of the outstanding debt securities of an affected series may waive any default or event of default with respect to the series and its consequences, except defaults or events of default regarding payment of principal, premium, if any, or interest, unless we have cured the default or event of default in accordance with the indenture.

Subject to the terms of the indentures, if an event of default under an indenture shall occur and be continuing, the debenture trustee will be under no obligation to exercise any of its rights or powers under such indenture at the request or direction of any of the holders of the applicable series of debt securities, unless such holders have offered the debenture trustee reasonable indemnity. The holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee, or exercising any trust or power conferred on the debenture trustee, with respect to the debt securities of that series, provided that:

the direction so given by the holder is not in conflict with any law or the applicable indenture; and

subject to its duties under the Trust Indenture Act, the debenture trustee need not take any action that might involve it in personal liability or might be unduly prejudicial to the holders not involved in the proceeding.

A holder of the debt securities of any series will only have the right to institute a proceeding under the indentures or to appoint a receiver or trustee, or to seek other remedies, if:



the holder has given written notice to the debenture trustee of a continuing event of default with respect to that series;

the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and such holders have offered reasonable indemnity to the debenture trustee, to institute the proceeding as trustee; and

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the debenture trustee does not institute the proceeding, and does not receive from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series other conflicting directions, within 90 days after the notice, request and offer. These limitations do not apply to a suit instituted by a holder of debt securities if we default in the payment of the principal, premium, if any, or interest on the debt securities.

We will periodically file statements with the debenture trustee regarding our compliance with specified covenants in the indentures.

### **Modification of Indenture; Waiver**

We and the debenture trustee may modify an indenture without the consent of any holders with respect to specific matters, including, without limitation:

to fix any ambiguity, defect or inconsistency in the indenture or in the debt securities of any series;

to comply with the provisions described above under Consolidation, Merger or Sale ;

to comply with any requirements of the SEC in connection with the qualification of any indenture under the Trust Indenture Act;

to evidence and provide for the acceptance of appointment under the indenture by a successor trustee;

to provide for uncertificated debt securities in addition to or in place of certificated securities and to make all appropriate changes for such purpose;

to add to, delete from, or revise the conditions, limitations and restrictions on the authorized amount, terms or purposes of issuance, authentication and delivery of debt securities of any series;

to provide for the issuance of and to establish the form and terms and conditions of the debt securities of any series authorized pursuant to the indentures, to establish the form of any certifications required to be furnished pursuant to the indentures or any series or to add to the rights of the holders of any series of debt securities;

to add to our covenants such new covenants, restrictions, conditions or provisions for the protection of the holders, to make the occurrence, or the occurrence and the continuance, of a default in any such additional covenants, restrictions, conditions or provisions an event of default, or to surrender any of our rights or powers under the indenture; or

to change anything that does not adversely affect the rights of any holder of debt securities of any series in any material respect. In addition, under the indentures, the rights of holders of debt securities of any series may be changed by us and the debenture trustee with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding debt securities of each series that is affected. However, we and the debenture trustee may only make the following changes with the consent of each holder of any outstanding debt securities affected:

extending the fixed maturity of the debt securities of any series;

reducing the principal amount, reducing the rate of or extending the time of payment of interest or reducing any premium payable upon the redemption of any debt securities;

making the principal of (premium, if any), interest or other additional amounts on any debt security payable in any coin or currency other than that provided in such debt security; or

reducing the percentage of debt securities the holders of which are required to consent to any supplemental indenture.

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### **Discharge**

The indentures provide that we can elect to be discharged from our obligations with respect to one or more series of debt securities, except for certain obligations, including obligations to:

register the transfer or exchange of debt securities of the series;

replace mutilated, destroyed, lost or stolen debt securities of the series;

maintain paying agencies;

compensate and indemnify the debenture trustee; and

appoint any successor trustee.

In order to exercise our rights to be discharged, we must deposit with the debenture trustee money or government obligations, or a combination of both, sufficient to pay all of the principal, premium, if any, and interest on the debt securities of the series on the dates payments are due.

### **Form, Exchange and Transfer**

We will issue the debt securities of each series only in fully registered form without coupons and, unless we otherwise specify in the applicable prospectus supplement, in denominations of \$2,000 and any integral multiple thereof. The indentures provide that we may issue debt securities of a series in temporary or permanent global form and as book-entry securities that will be deposited with, or on behalf of, The Depository Trust Company, New York, New York, known as "DTC", or another depository named by us and identified in a prospectus supplement with respect to that series.

At the option of the holder, subject to the terms of the indentures and the limitations applicable to global securities described in the applicable prospectus supplement, the holder of the debt securities of any series can exchange the debt securities for other debt securities of the same series, in any authorized denomination and of like tenor and aggregate principal amount.

Subject to the terms of the indentures and the limitations applicable to global securities set forth in the applicable prospectus supplements, holders of the debt securities may present the debt securities for exchange or for registration of transfer, duly endorsed or with the form of transfer endorsed thereon duly executed if so required by us or the security registrar, at the office of the security registrar or at the office of any transfer agent designated by us for this purpose. Unless otherwise provided in the debt securities that the holder presents for transfer or exchange, we will not impose a service charge for any registration of transfer or exchange, but we may require payment of any taxes or other governmental charges applicable to or associated with such registration of transfer or exchange.

We will name in the applicable prospectus supplements the security registrar, and any transfer agent in addition to the security registrar, that we initially designate for any debt securities. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

If we elect to redeem the debt securities of any series, we will not be required to:

issue, register the transfer of, or exchange any debt securities of any series being redeemed in part during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any debt securities that may be selected for redemption and ending at the close of business on the day of the mailing; or

register the transfer of or exchange any debt securities so selected for redemption, in whole or in part, except the unredeemed portion of any debt securities we are redeeming in part.

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### **Information Concerning the Debenture Trustee**

The debenture trustee, other than during the occurrence and continuance of an event of default under an indenture, will undertake to perform only those duties as are specifically set forth in the applicable indenture. Upon an event of default under an indenture, the debenture trustee must use the same degree of care as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the debenture trustee is under no obligation to exercise any of the powers given to it by the indentures at the request of any holder of debt securities unless it is offered reasonable security and indemnity against the costs, expenses and liabilities that it might incur.

### **Payment and Paying Agents**

Unless we otherwise indicate in the applicable prospectus supplement, we will make payment of the interest on any debt securities on any interest payment date to the person in whose name the debt securities, or one or more predecessor securities, are registered at the close of business on the regular record date for the interest.

We will pay principal of, and any premium and interest on, the debt securities of a particular series at the office of the paying agents designated by us, except that, unless we otherwise indicate in the applicable prospectus supplement, we may make certain payments by check which we will mail to the holder or by wire transfer to certain holders. Unless we otherwise indicate in a prospectus supplement, we will designate an office or agency of the debenture trustee in the city of New York as our sole paying agent for payments with respect to debt securities of each series. We will name in the applicable prospectus supplement any other paying agents that we initially designate for the debt securities of a particular series. We will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money we pay to a paying agent or the debenture trustee for the payment of the principal of or any premium or interest on any debt securities which remains unclaimed at the end of two years after such principal, premium or interest has become due and payable will be repaid to us, and the holder of the debt security thereafter may look only to us for payment thereof.

### **Governing Law**

The indentures and the debt securities will be governed by and construed in accordance with the laws of the state of New York, except to the extent that the Trust Indenture Act is applicable.

### **Subordination of Subordinated Debt Securities**

The subordinated debt securities will be subordinate and junior in priority of payment to certain of our other indebtedness to the extent described in a prospectus supplement. The indentures in the form initially filed as exhibits to the registration statement of which this prospectus forms a part do not limit the amount of indebtedness which we may incur, including senior indebtedness or subordinated indebtedness, and do not limit us from issuing any other debt, including secured debt or unsecured debt. Additional or different subordination provisions may be described in a prospectus supplement relating to a particular series of debt securities.

### **Existing Senior Notes**

In November 2010, we issued \$300.0 million in aggregate principal amount of 9.5% senior notes due 2017, referred to as the Senior Notes to principally refinance our 9.25% senior notes due 2013. The Senior Notes bear interest at a rate of 9.5% per annum, payable semi-annually in arrears on December 1 and June 1, commencing June 1, 2011. The Senior Notes mature on December 1, 2017. The Senior Notes are our senior unsecured obligations and, accordingly, will rank junior in right of payment to all existing and future secured indebtedness and all indebtedness and liabilities of our subsidiaries, equal in right of payment with all existing and future unsecured senior indebtedness, including any senior debt securities issued pursuant to this prospectus, and senior in right of payment to any subordinated debt securities issued pursuant to this prospectus.

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The Senior Notes were issued under an indenture which, among other things, restricts our ability and the ability of our restricted subsidiaries under the indenture to: (i) incur additional indebtedness or issue preferred stock; (ii) pay dividends or make other distributions to our stockholders; (iii) purchase or redeem capital stock or subordinated indebtedness; (iv) make investments; (v) create liens and enter into sale and lease back transactions; (vi) incur restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us; (vii) sell assets; (viii) consolidate or merge with or into other companies or transfer all or substantially all of our assets; and (ix) engage in transactions with affiliates. These limitations are subject to important qualifications and exceptions.

In 2011 and year to date in 2012, we purchased and cancelled approximately \$13.6 million and \$2.2 million, respectively, in aggregate principal amount of our Senior Notes in connection with our share and debt repurchase program. As at the date of this prospectus, approximately \$284.4 million in aggregate principal amount of Senior Notes remained outstanding.

### **DESCRIPTION OF CAPITAL STOCK**

This section contains a general description of the terms and provisions of our share capital which we may offer and sell by this prospectus. This description includes both our common stock and our preferred stock (certain terms of which also affect the common stock). The following summary of the terms of our capital stock is not meant to be complete and is qualified by reference to our Articles of Incorporation and amendments thereto which have been filed with the SEC. See **Incorporation of Certain Information by Reference** . While the terms we have summarized below will apply generally to any future common stock and preferred stock that we may offer, we will describe the particular terms of any securities in more detail in the applicable prospectus supplement. If we so indicate in a prospectus supplement, the terms of any security we offer under that prospectus supplement may differ from the terms we describe below.

We are authorized under our certificate of incorporation to issue up to 200,000,000 shares of common stock, \$1.00 par value per share and 50,000,000 shares of preferred stock, \$1.00 par value per share, issuable in series. As of the date of this prospectus, there were 55,815,704 shares of common stock and no shares of preferred stock of any series issued and outstanding.

#### **Common Stock**

Each share of our common stock entitles the holder to one vote at a meeting of our shareholders. Cumulative voting in the election of directors is not permitted. The shares of the common stock are entitled to dividends when, as and if declared by our board of directors from time to time. Upon the liquidation, dissolution or winding up of Mercer, the holders of the shares of common stock are entitled to participate pro rata in any distribution of our assets (in cash or in kind or partly each) after the payment of all liabilities, subject to the rights of holders of preferred stock.

#### **Preferred Stock**

We are authorized, without further action by our shareholders, to issue preferred stock from time to time and to: (i) divide the preferred stock into one or more series; (ii) designate the number of shares of each series and the designation thereof; (iii) fix and determine the relative rights and preferences as between series including, but not limited to, the dividend rate (and whether dividends are cumulative), conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price and liquidation preferences (if and to the extent that any such rights are to be applicable to any such series); and (iv) amend the relative rights and preferences of any series that is wholly unissued.

We have also authorized 2,000,000 shares of Series A Junior Participating Preferred Shares, referred to as the **Series A Preferred Shares** , none of which are issued and outstanding as of the date of this prospectus.

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### **Series A Preferred Shares**

The Series A Preferred Shares are entitled to receive, subject to the rights of holders of preferred stock ranking prior to the Series A Preferred Shares, quarterly dividends, when, as and if declared by the directors of Mercer, in an amount equal to the greater of (i) \$10 or (ii) 100 times the dividends declared on the shares of common stock. Mercer is required to declare a dividend on the Series A Preferred Shares immediately after it declares a dividend on its shares of common stock and all dividends declared are cumulative but do not bear interest.

In the event that dividends declared on the Series A Preferred Shares are in arrears for six quarterly periods, all holders of preferred stock with dividends in arrears for six quarterly periods, irrespective of the series, voting as a class, have the right to elect two directors at a meeting of its shareholders. However, the term of any director so elected terminates upon the payment of outstanding dividends. When dividends on the Series A Preferred Shares are in arrears: (i) Mercer cannot declare or pay dividends on, or make any other distribution on, or redeem or purchase, any shares ranking junior to the Series A Preferred Shares; (ii) declare or pay dividends on, or make any other distributions on, any shares ranking on parity with the Series A Preferred Shares, except dividends paid ratably on the Series A Preferred Shares and all such parity shares on which dividends are payable or in arrears on a pro rata basis; (iii) redeem or purchase shares ranking on parity with the Series A Preferred Shares, except that Mercer may redeem or purchase such parity shares in exchange for shares ranking junior to the Series A Preferred Shares; or (iv) purchase any Series A Preferred Shares or shares ranking on parity with the Series A Preferred Shares, except in accordance with a purchase offer made in writing or by publication to all holders of such shares upon such terms as the directors of Mercer determine in good faith will result in a fair and equitable treatment among the respective shares.

Upon the liquidation, dissolution or winding up of Mercer, no distribution may be made to holders of shares ranking junior to the Series A Preferred Shares unless, prior thereto, the holders of Series A Preferred Shares have received \$100 per share plus an amount equal to accrued and unpaid dividends thereon, whether or not declared. Following such payment, holders of Series A Preferred Shares are not entitled to any additional distributions and holders of Series A Preferred Shares and holders of the shares of common stock are entitled to receive a pro rata share of the remaining assets of Mercer to be distributed.

In the event that Mercer enters into any consolidation, merger, combination or other transaction in which shares of common stock of Mercer are exchanged for securities, cash and/or other property, the Series A Preferred Shares shall at the same time be similarly exchanged in an amount per share equal to 100 times the aggregate amount of the securities, cash and/or other property into which each share of common stock of Mercer is exchanged.

Series A Preferred Shares vote together as one class with the shares of common stock. Each Series A Preferred Share entitles the holder thereof to 100 votes on all matters submitted to a vote of the shareholders of Mercer.

### **Anti-takeover Provisions**

#### ***Washington Law***

Mercer is subject to the provisions of Chapter 23B.19 of the *Washington Business Corporation Act*, contained within the *Revised Code of Washington*, which prohibits a Washington corporation, with certain exceptions, from engaging in certain significant business transactions with an acquiring person (defined generally as a person or group of persons who beneficially own or acquire 10% or more of Mercer's voting securities) for a period of five years following the acquiring person's share acquisition date. The prohibited transactions include, among others, mergers or consolidations with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person, or any other receipt by the acquiring person of a disproportionate benefit as a shareholder.



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Exceptions to this statutory prohibition include approval of the significant business transaction at a shareholders meeting by holders of not less than two-thirds of the outstanding shares entitled to vote on the transaction, not counting shares as to which the acquiring person has beneficial ownership or voting control, significant business transactions approved by a majority of the members of our board of directors prior to the acquiring person first becoming an acquiring person, or a merger, share exchange, consolidation, liquidation, distribution or certain other significant business transactions entered into with the acquiring person where certain requirements regarding the fairness of the consideration to be received by the shareholders have been met. Mercer may not exempt itself from coverage of this statute. These statutory provisions may have the effect of delaying, deterring or preventing a change in control of Mercer.

## ***Articles of Incorporation***

The board of directors of Mercer has the authority to issue up to 50,000,000 shares of preferred stock, and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares without any further vote or action by the holders of the shares of common stock. The rights of the holders of shares of preferred stock that may be issued in the future may adversely affect the rights of the holders of the shares of common stock. The issuance of the preferred stock, while providing Mercer with desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of Mercer, thereby delaying, deferring or preventing a change in control of Mercer. Furthermore, such preferred stock may have other rights, including economic rights senior to the shares of common stock and, as a result, the issuance of the preferred stock could have a material adverse effect on the market value of the shares of common stock. Mercer has no present plan to issue shares of preferred stock.

## **Dividend Policy**

Our board of directors has not declared cash dividends on our common stock. Furthermore, the indenture governing our Senior Notes contains a covenant restricting us from paying dividends (other than dividends payable solely in stock) on our common stock. As a result, it is unlikely that we will pay any dividends on our common stock in the foreseeable future. In any event, the declaration and payment of future dividends by our board of directors will be dependent upon our earnings and financial condition, economic and market conditions and other factors deemed relevant by our board of directors. Therefore, no assurance can be given as to the amount or timing of the declaration and payment of future dividends.

## **Listing**

Our common stock is listed on the NASDAQ Global Market under the symbol **MERC** and listed in U.S. dollars on the Toronto Stock Exchange under the symbol **MRI.U**.

## **Transfer Agent and Registrar**

The transfer agent and registrar for our shares of common stock is Computershare.

## **DESCRIPTION OF WARRANTS**

*We have provided below a summary description of warrants that we may issue. This description is not complete and is qualified in its entirety by reference to the full text of the applicable warrant agreement. You should read the full text of any such warrant agreement.*

We may issue warrants, in one or more series, for the purchase of debt securities or shares of our common stock. Warrants may be issued independently or together with our debt securities or common stock and may be attached to or separate from any offered securities. While the terms we have summarized below will generally apply to any future warrants we may offer under this prospectus, we will describe the particular terms of any warrants that we may offer in more detail in the applicable prospectus supplement.

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We will issue the warrants directly or under a warrant agreement which we will enter into with a warrant agent to be selected by us. In addition to this summary, you should refer to the detailed provisions of the specific warrant agreement, where applicable, for complete terms of the warrants. Where applicable, a form of warrant agreement will be filed with the SEC as an exhibit to the Registration Statement by post-effective amendment or a Current Report on Form 8-K.

The warrants will be evidenced by warrant certificates. Unless otherwise specified in the prospectus supplement, the warrant certificates may be traded separately from the debt securities or common stock, if any, with which the warrant certificates were issued. Warrant certificates may be exchanged for new warrant certificates of different denominations at the office or an agent that we will appoint. Until a warrant is exercised, the holder of a warrant does not have any of the rights of a holder of our debt securities or common stock and is not entitled to any payments on any debt securities or common stock issuable upon exercise of the warrants.

A prospectus supplement accompanying this prospectus relating to a particular series of warrants to issue debt securities or common stock will describe the terms of those warrants, including:

the title and the aggregate number of warrants;

the offering price for such warrants;

the debt securities or common stock for which each warrant is exercisable;

the date or dates on which the right to exercise such warrants commence and expire;

the price or prices at which such warrants are exercisable;

the terms of any anti-dilution or other adjustment provisions;

the currency or currencies in which such warrants are exercisable;

the periods during which and places at which such warrants are exercisable;

the terms of any mandatory or operation call provisions;

the price or prices, if any, at which the warrants may be redeemed at the option of the holder or will be redeemed upon expiration;

the identity of the warrant agent;

the exchanges, if any, on which such warrants may be listed; and

any additional terms of such warrants.

You may exercise warrants by payment to our warrant agent of the exercise price, in each case in such currency or currencies as are specified in the warrant, and by giving your identity and the number of warrants to be exercised. Once you pay our warrant agent and deliver the properly completed and executed warrant certificate to our warrant agent at the specified office, our warrant agent will, as soon as practicable, forward securities to you in authorized denominations or share amounts. If you exercise less than all of the warrants evidenced by your warrant certificate, you will be issued a new warrant certificate for the remaining amount of warrants.

**Table of Contents****PRICE RANGE OF SHARES OF COMMON STOCK**

The following table sets forth the high and low sale prices of our common stock, as reported on the NASDAQ Global Market, for the quarters indicated

<b>Quarter</b>	<b>High</b>	<b>Low</b>
<b>2012</b>		
First Quarter	\$ 8.80	\$ 6.15
Second Quarter	8.10	5.55
Third Quarter	7.51	5.05
Fourth Quarter (through November 30, 2012)	7.80	6.18
<b>2011</b>		
First Quarter	\$ 14.05	\$ 7.66
Second Quarter	14.88	10.08
Third Quarter	11.25	6.80
Fourth Quarter	7.46	5.34
<b>2010</b>		
First Quarter	\$ 5.87	\$ 2.68
Second Quarter	6.08	3.98
Third Quarter	5.58	3.97
Fourth Quarter	7.95	4.93

On November 30, 2012, the last reported sale price of our common stock as reported on the NASDAQ Global Market, our primary trading market, was \$6.94.

**PLAN OF DISTRIBUTION**

We may sell the securities offered by this prospectus and any prospectus supplement from time to time in one or more transactions as follows:

through agents;

to or through underwriters;

through dealers;

directly by us to investors; or

through a combination of any such methods of sale.

We, directly or through agents or dealers, may sell, and the underwriters may resell, the securities from time to time in one or more transactions, including:

transactions on the NASDAQ Global Market or any other organized market where the securities may be traded;

in an over-the-counter market;

in negotiated transactions; or

through a combination of any such methods of sale.

The securities may be sold at a fixed price or prices which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. We will describe the method of distribution of the securities to be sold in the applicable prospectus supplement.

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Agents designated by us from time to time may solicit offers to purchase the securities. We will name any such agent involved in the offer or sale of the securities and set forth any compensation in the form of discounts, concessions or commissions payable by us or our purchasers to such agent in a prospectus supplement relating to any such offer and sale of securities. Unless otherwise indicated in the prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment. Any such agent may be deemed to be an underwriter of the securities, as that term is defined in the Securities Act.

If underwriters are used in the sale of securities, securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions. Securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. If an underwriter or underwriters are used in the sale of securities, we will execute an underwriting agreement with such underwriter or underwriters at the time an agreement for such sale is reached. We will set forth in a prospectus supplement the names of the specific managing underwriter or underwriters, as well as any other underwriters, and the terms of the transactions, including compensation of the underwriters and dealers. Such compensation may be in the form of discounts, concessions or commissions. Underwriters and others participating in any offering of securities may engage in transactions that stabilize, maintain or otherwise affect the price of such securities. These transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M promulgated by the SEC pursuant to which these persons may bid for or purchase securities for the purpose of stabilizing their market price. We will describe any such activities in the prospectus supplement.

Unless otherwise specified in the applicable prospectus supplement, each class or series of securities will be a new issue with no established trading market, other than our common stock, which is listed on the NASDAQ Global Market and the Toronto Stock Exchange. We may elect to list any other class or series of securities on any exchange, but we are not obligated to do so. It is possible that one or more underwriters may make a market in a class or series of securities, but the underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We cannot give any assurance as to the liquidity of the trading market for any of the securities.

If a dealer is used in the sale of the securities, we or an underwriter will sell such securities to the dealer, as principal. The dealer may then resell such securities to the public at varying prices to be determined by such dealer at the time of resale. A prospectus supplement will set forth the name of the dealer and the terms of the transactions.

We may directly solicit offers to purchase the securities, and we may sell directly to institutional investors or others. These persons may be deemed to be underwriters within the meaning of the Securities Act with respect to any resale of the securities. The prospectus supplement will describe the terms of any such sales, including the terms of any bidding, auction or other process, if utilized.

We may grant underwriters who participate in the distribution of securities an option to purchase additional securities to cover over-allotments, if any, in connection with the distribution. Underwriters or agents and their associates may be customers of, engage in transactions with, or perform services for, us in the ordinary course of business.

The underwriters in our offering of our securities may also create a short position for their account by selling more securities in connection with the offering than they are committed to purchase from us. In that case, the underwriters could cover all or a portion of the short position by either purchasing securities in the open market following completion of the offering of such securities or by exercising any over-allotment option granted to them by us.

Agents, underwriters and dealers may be entitled under agreements which may be entered into with us to indemnification by us against specified liabilities, including liabilities under the Securities Act or to contribution by us to payments they may be required to make in respect of such liabilities. A prospectus supplement will

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describe the terms and conditions of such indemnification or contribution. Some of the agents, underwriters or dealers, or their affiliates, may engage in transactions with or perform services for us and our subsidiaries in the ordinary course of their business.

In compliance with guidelines of the Financial Industry Regulatory Authority, or FINRA, the maximum consideration or discount to be received by any FINRA member or independent broker dealer may not exceed 8% of the aggregate amount of the securities offered pursuant to this prospectus and any applicable prospectus supplement.

## **LEGAL MATTERS**

The validity of the securities being offered by this prospectus and applicable prospectus supplement and certain other legal matters in connection with the issuance and sale of such securities will be passed upon for the Company by Sangra Moller LLP, Vancouver, British Columbia and Davis Wright Tremaine LLP, Seattle, Washington. Counsel named in the applicable prospectus supplement will pass upon legal matters for any underwriters, dealers or agents.

## **EXPERTS**

The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2011, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

## **WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the informational requirements of the Exchange Act and are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC, including the registration statement relating to this prospectus, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room. The SEC maintains a web site that contains reports, proxy and information statements, and other information regarding issuers, including Mercer International Inc., that file electronically with the SEC. You may access the SEC's web site at <http://www.sec.gov>.

This prospectus omits some information contained in the registration statement of which this prospectus forms a part in accordance with the SEC rules and regulations. You should review the information and exhibits in the registration statement for further information about us and the securities we may offer. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

## **INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

The SEC allows us to incorporate by reference information that we file with it into this prospectus, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. The information incorporated by reference into this prospectus is deemed to be part of this prospectus, and any information filed with the SEC after the date of this prospectus will automatically be deemed to update and supersede information contained in this prospectus and any accompanying prospectus supplement.

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The following documents previously filed with the SEC are incorporated by reference in this prospectus:

Our annual report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on February 21, 2012;

Our quarterly reports on Form 10-Q for the fiscal quarters ended March 31, 2012, June 30, 2012 and September 30, 2012 filed with the SEC on May 7, 2012, August 3, 2012 and November 2, 2012, respectively;

Our definitive proxy statement on Schedule 14A filed with the SEC on March 26, 2012;

Our current reports on Form 8-K filed with the SEC on January 26, 2012, January 31, 2012, February 13, 2012, April 12, 2012, April 16, 2012 and June 1, 2012; and

The description of our common stock in our registration statement on Form 8-A12G (File No.: 001-51826) filed with the SEC on March 1, 2006.

All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of this prospectus until the date on which the registration statement containing this prospectus has been withdrawn shall also be deemed to be incorporated by reference in this prospectus and to be a part of this prospectus from the date of filing of those documents. In no event, however, will any of the information that we disclose under Item 2.02 or Item 7.01 of any Current Report on Form 8-K that we may from time to time file with the SEC be incorporated by reference into, or otherwise be included in, this prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide promptly without charge to you, upon oral or written request, a copy of any document incorporated by reference in this prospectus, other than exhibits to these documents unless the exhibits are specifically incorporated by reference in these documents. Requests should be directed as follows:

Mercer International Inc.  
Suite 1120  
700 West Pender Street  
Vancouver, British Columbia

Mercer International Inc.  
14900 Interurban Avenue South  
Suite 282  
Seattle, Washington



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V6C 1G8 Canada

USA 98168

Telephone: (604) 684-1099

Telephone: (206) 674-4639

Attention: Investor Relations

Attention: Investor Relations

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2012

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 000-51826

**MERCER INTERNATIONAL INC.**

Exact name of Registrant as specified in its charter

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**Washington** **47-0956945**  
State or other jurisdiction of **IRS Employer**

incorporation or organization **Identification No.**  
**Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8**

Address of Office

Registrant's telephone number including area code: (604) 684-1099

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1.00	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the voting stock on the NASDAQ Global Market on such date, was approximately \$318,707,670.

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As of February 13, 2013, the registrant had 55,815,704 shares of common stock, \$1.00 par value, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information that will be contained in the definitive proxy statement for the Registrant's annual meeting to be held in 2013 is incorporated by reference into Part III of this Form 10-K.

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Our reporting currency and financial statements included in this report are in Euros, as a significant majority of our business transactions are originally denominated in Euros. We translate non-Euro denominated assets and liabilities at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the period.

The following table sets out exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, referred to as the Noon Buying Rate, for the conversion of Euros and Canadian dollars to U.S. dollars in effect at the end of the following periods, the average exchange rates during these periods (based on daily Noon Buying Rates) and the range of high and low exchange rates for these periods:

	2012	Year Ended December 31,			2008
		2011	2010	2009	
			( /\$)		
End of period	0.7584	0.7708	0.7536	0.6977	0.7184
High for period	0.7428	0.6723	0.6879	0.6623	0.6246
Low for period	0.8290	0.7736	0.8362	0.7970	0.8035
Average for period	0.7782	0.7186	0.7541	0.7176	0.6826

			(C/\$)		
End of period	0.9958	1.0168	1.0009	1.0461	1.2240
High for period	0.9710	0.9448	0.9960	1.0289	0.9717
Low for period	1.0417	1.0605	1.0776	1.2995	1.2971
Average for period	0.9995	0.9887	1.0298	1.1412	1.0660

On February 8, 2013, the date of the most recent weekly publication of the Noon Buying Rate before the filing of this annual report on Form 10-K, the Noon Buying Rate for the conversion of Euros and Canadian dollars to U.S. dollars was 0.7482 per U.S. dollar and C\$1.0021 per U.S. dollar.

In addition, certain financial information relating to our Celgar mill included in this annual report on Form 10-K is stated in Canadian dollars while we report our financial results in Euros. The following table sets out exchange rates, based on the noon rate provided by the Bank of Canada, referred to as the Daily Noon Rate, for the conversion of Canadian dollars to Euros in effect at the end of the following periods, the average exchange rates during these periods (based on Daily Noon Rates) and the range of high and low exchange rates for these periods:

	2012	Year Ended December 31,			2008
		2011	2010	2009	
			(C/ )		
End of period	1.3118	1.3193	1.3319	1.5000	1.7046
High for period	1.2153	1.2847	1.2478	1.4936	1.4489
Low for period	1.3446	1.4305	1.5067	1.6920	1.7316
Average for period	1.2850	1.3761	1.3671	1.5851	1.5603

On February 14, 2013, the Daily Noon Rate for the conversion of Canadian dollars to Euros was C\$1.3344 per Euro.

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**PART I**