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### ***Registration Effective August 27<sup>th</sup> and Now Operational***

SMURFIT-STONE CONTAINER (SSCC \$11.93, rated Underweight) STRONG  
INDUSTRY CLIMATE PERMITS OPERATING PROFITABILITY

	2007E	2008E	2009E	2010E
Earnings Per Share revised Oct. 25	\$(0.54)	\$0.41	\$0.46	\$0.50
Earnings Per Share revised May 22	\$0.07	\$0.43	\$0.49	\$0.51

- High exports, 98.5% industry utilization rates and inventory drawdowns benefit the national containerboard market. Selling prices have risen even though the Fibre Box Association reports a 1.2% drop in year-to-date box shipments to September.
- SSCC continues to close or sell plants or machinery and reduce employees in line with its continuing business strategy to reduce costs. The company estimates its savings have been \$302 mm in the first nine months of 2007.
- Higher fiber and energy and losses of customers offset a portion of the company's cost savings. SSCC's goal is to retain 80% of the customers of divested units. In the third-quarter such "retentions" appeared to fall short of the goal as SSCC's box shipments fell 8% of which SSCC attributed 5.3% from its closures and 2.7% from declines in housing-related and consumer durable products.
- At September 30 the gross equity was \$1.751 million, tangible net worth NEGATIVE \$976 mm, and total debt-like liabilities were \$4,807 mm. The balance sheet appears to have improved slightly as rationalizations reduced assets employed and debts. Both debt and the gross assets available to support the debt burden have fallen by \$0.3 billion thus far during 2007. Debt reductions are beneficial, and in the future we hope to see debt to fall faster than total assets via earnings retention.
- Excluding designated items, third-quarter and nine months earnings are profits of \$0.11 and \$0.08 compared to our estimates. Including writedowns and charges, the third-quarter loss of \$0.38 and \$0.61 per share ytd net loss were less than our estimates and we cut our 2007 earnings estimate from \$0.07 to a loss of \$0.54 per share. We believe the "as reported" earnings also are relevant because the losses reduce SSCC's equity base, which may influence debt covenants.
- We estimate the fourth-quarter results at \$0.07 per share versus \$0.09 last year assuming no further one-time charges and some better productivity.
- We estimated 2007 containerboard price per ton for the third quarter at \$908 compared to the actual price per ton of \$996. We also estimated EBIT cost

per ton at \$836 compared to the actual of \$900. Both costs and prices have been higher than expected.

- We also lowered our 2007 estimate of corrugated shipments from 77.3 to 74.4 BSF as SSCC has had some difficulty retaining all customers as it changes operations. We also lowered our 2007 output estimates from 7,435 to 7,407 000 tons as SSCC appears to export or sell excess tons to independent converters when it has excess mill output that its captive box plants do not require.

## CAT AND MOUSE GAME BETWEEN COST SAVINGS AND COST INFLATIONS

Smurfit-Stone has made virtuous actions to cut costs by \$302 million and continues to cut employees both in mills and box converting plants. It cut assets employed and debt similarly. Industrywide volumes and prices have been fairly ebullient.

Offsetting these dynamics have been rising fiber and energy costs, difficulties keeping all customers as box manufacturing flow changes “ruffle feathers” or disrupt relationships and unsold box plant hours provide an overhead drag.

Consequently, SSCC continues to have razor thin profit or loss margins.

## STRONG INDUSTRY ENVIRONMENT

SSCC ran its paper mills at 100% of capacity in the third-quarter. The U.S. containerboard industry roughly 98% operating rate from September to year-end and 100% in July and August.

Industry pricing is strong, and a SSCC shareholder could not hope for the industry climate to be too much better. While box shipments fell 1.2%, exports have risen 15% to permit full utilization.

## PRICE OBJECTIVE AND INVESTMENT VIEW

Our price objective discussion does not assume Smurfit-Stone will merge or be taken over. It reflects the current \$976 million tangible equity deficit and recent poor profit history.

We rate Smurfit-Stone Container Underweight as continued cost inflation, moderate year-over-year volume erosion, and declining containerboard market fundamentals negatively impact the shares. Smurfit-Stone is particularly vulnerable to industry weakness as the company is the largest containerboard producer, and is burdened by \$4.8 billion in net debt-like liabilities. The company has struggled to consistently exceed the break-even earnings level, despite recent booming containerboard markets with over 100% operating rates.

We are encouraged by some progress in the strategic initiatives such as the significant 450 reduction in headcount from the second quarter. The benefits of this were \$18 mm in the third quarter and \$302 mm ytd cost savings.

The valuation method used to determine our \$9 price target on Smurfit-Stone Container is based on an enterprise value-to-2007 EBITDA of 8.4 times.

## BUSINESS RISKS TO UPSIDE

Risks to our investment thesis include a rebound in containerboard shipments in 2007 from recent weak data points, higher selling prices, higher profits, some successful merger transaction, increased exports of U.S. goods due to a weak U.S. dollar, less than expected cost inflation, or faster than anticipated benefits from strategic cost initiatives. Loyal customers willing to pay for above-average graphics services certainly would reward SSCC's strategy as well.

Business risks to the downside should be apparent from the balance sheet, cost rises, customer defections and potential to have future less-than-full operating rates as enjoyed today.

## EARNINGS ESTIMATE REVISIONS FOR 2007 REFLECT ONE-TIME FACTORS, WHILE 2008 – 13 SIMILAR

Our earnings estimates for 2008 through 2013 remain generally consistent with our previous estimates as current losses are a result of one time costs. We lowered our 2007 estimated earnings to a loss of \$.54 from our previous estimate of a gain of \$.07 per share. We estimated 4<sup>th</sup> quarter earnings at \$.07 per share assuming that there are no further writedowns in the fourth quarter.

SSCC lost \$0.61 for the first nine months due to \$0.69 of one-time losses and \$0.08 of defined operating earnings. We cut our earnings estimate for 2007 to reflect \$0.38 in loss on a discontinued Brewton plant sale, \$0.18 of noncash currency losses, \$0.07 of early debt retirement charges, \$0.09 of restructuring costs, and a \$0.01 gain on pension curtailment and a \$0.02 gain on a tax item.

**Table 1: Smurfit Stone Container Earnings Model**

(\$ in millions)

	2006	4Q 2007	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Containerboard and containers	6,745	1,665	7,110	6,587	6,653	6,590	6,590	6,590	6,590
Consumer packaging	416	0	0	0	0	0	0	0	0
Other	392	97	231	231	231	231	231	231	231
<b>Total Revenues</b>	<b>7,553</b>	<b>1,762</b>	<b>7,341</b>	<b>6,818</b>	<b>6,884</b>	<b>6,821</b>	<b>6,821</b>	<b>6,821</b>	<b>6,821</b>
Containerboard and containers	432	141	577	450	478	483	479	479	475
Consumer packaging	16	0	0	0	0	0	0	0	0
Other	(133)	(25)	(292)	20	20	20	20	20	20
<b>Total Operating Profit</b>	<b>315</b>	<b>116</b>	<b>285</b>	<b>470</b>	<b>498</b>	<b>503</b>	<b>499</b>	<b>499</b>	<b>495</b>
Cost of goods sold	6,108	1,558	6,373	5,220	5,263	5,201	5,209	5,214	5,223
Depreciation	377	88	360	355	350	345	340	335	330
SG&A	710		773	773	773	773	773	773	773
Restructuring charges	43		45						
Interest expense	(341)	(81)	(301)	(273)	(270)	(266)	(262)	(259)	(255)
Other income (expense)	(68)	(1)	(89)	(10)	(10)	(5)	(5)	(5)	(5)
Pretax income	(94)	33	(106)	187	218	232	232	235	235
Taxes	34	(13)	(21)	(67)	(85)	(90)	(90)	(92)	(92)
Tax rate	39.0%	39.0%	39.0%	36.0%	39.0%	39.0%	39.0%	39.0%	39.0%
Minority Interest	0		(5)	(5)	(5)	(5)	(5)	(5)	(5)
Net Income	(60)	20	(127)	115	128	136	136	139	138
Discontinued operations									
Extraordinary items									
Net Income	(60)	20	(127)	115	128	136	136	139	138
Preferred dividends	(12)	(3)	(12)	(10)	(10)	(10)	(10)	(10)	(10)
<b>Net income to common</b>	<b>(72)</b>	<b>17</b>	<b>(139)</b>	<b>105</b>	<b>118</b>	<b>126</b>	<b>126</b>	<b>129</b>	<b>128</b>
Avg. shares outstanding	255	255	255	255	255	255	255	255	255
F/D shares outstanding	255	255	255	255	255	255	255	255	255
<b>Earnings per FD share</b>	<b>(\$0.28)</b>	<b>\$0.07</b>	<b>(\$0.54)</b>	<b>\$0.41</b>	<b>\$0.46</b>	<b>\$0.50</b>	<b>\$0.50</b>	<b>\$0.50</b>	<b>\$0.50</b>
Dividends per share	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow per FD share	\$1.85		\$0.98	\$2.02	\$2.10	\$2.12	\$2.10	\$2.09	\$2.07
Book value per FD share	\$6.72		\$6.22	\$6.67	\$7.18	\$7.71	\$8.25	\$8.79	\$9.33

**Smurfit Stone Container Underlying Dynamics**

	2006	4Q 2007	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Corrugated Shipments NA(BSF)	79.2	18.0	74.4	75.7	77.0	78.3	79.6	80.9	82.3
N. Am. Mill Output (mt)	7,402	1,850	7,407	7,259	7,331	7,258	7,258	7,258	7,258
Pulp Production (mt)	564	142	570	575	581	587	593	599	605
Fiber reclaimed & brokered (mt)	6,614	1,688	6,726	6,841	6,957	7,075	7,196	7,318	7,442
Containerboard segment price per ton	911	900	960	908	908	908	908	908	908
Containerboard segment EBIT cost per ton	854	824	882	846	842	842	842	842	843
Containerboard segment margins	6.4%	8.4%	8.1%	6.8%	7.2%	7.3%	7.3%	7.3%	7.2%

Source: Smurfit-Stone Container; John Tumazos Very Independent Research, LLC estimates

**Table 2: Smurfit Stone Container Sources and Uses of Cash**

(\$ in millions)

Sources	2006	4Q 2007	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net income	(60)		(127)	115	128	136	136	139	138
Depreciation	377		360	355	350	345	340	335	330
Deferred taxes	108		13	40	51	54	54	55	55
Minority interest			5	5	5	5	5	5	5
Non-cash charges	47		0	0	0	0	0	0	0
Asset sales	980								
Debt	(24)		40						
Equity									
Cash from Stone									
Sale of receivables									
Other		(177)							
<b>Total</b>	<b>1,251</b>		<b>291</b>	<b>515</b>	<b>534</b>	<b>541</b>	<b>536</b>	<b>534</b>	<b>528</b>
<b>Uses</b>									
Capital expenditures	274		275	285	285	285	285	285	285
Acquisitions	0								
Debt repayment	937		40	40	50	50	45	45	40
Repay receivables debt	50			100	100	100	100	100	100
Pension contributions	14		100	100	100	100	100	100	100
Dividends	8		0	0	0	0	0	0	0
Change in non-cash W/C	(36)								
Change in cash	4		(124)	(10)	(1)	6	6	4	3
<b>Total</b>	<b>1,251</b>		<b>291</b>	<b>515</b>	<b>534</b>	<b>541</b>	<b>536</b>	<b>534</b>	<b>528</b>

**Table 3: Smurfit-Stone Container Balance Sheet**

(\$ in millions)

	2006	4Q 2007	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Cash	9		(115)	(125)	(126)	(120)	(114)	(111)	(107)
Receivables	166		551	614	723	819	819	819	819
Off balance sheet A/R	627		448	348	248	148	48	0	0
Inventories	538		624	580	585	580	580	580	580
Deferred income taxes	0		13	53	104	158	213	268	323
Prepaid expenses and other	34		0	0	0	0	0	0	0
<b>Total current assets</b>	<b>1,374</b>		<b>1,520</b>	<b>1,469</b>	<b>1,535</b>	<b>1,585</b>	<b>1,545</b>	<b>1,556</b>	<b>1,614</b>
Net PP&E	3,731		3,646	3,576	3,511	3,451	3,396	3,346	3,301
Timberland	43		43	43	43	43	43	43	43
Goodwill, net	2,873		2,873	2,873	2,873	2,873	2,873	2,873	2,873
Investments	0								
Other assets	204		204	204	204	204	204	204	204
<b>Total Assets</b>	<b>8,225</b>		<b>8,286</b>	<b>8,165</b>	<b>8,166</b>	<b>8,156</b>	<b>8,061</b>	<b>8,022</b>	<b>8,035</b>
Short-term debt	84		90	0	0	0	0	0	0
Accounts payable and other	983		1,260	1,224	1,295	1,345	1,304	1,316	1,376
<b>Total current liabilities</b>	<b>1,067</b>		<b>1,350</b>	<b>1,224</b>	<b>1,295</b>	<b>1,345</b>	<b>1,304</b>	<b>1,316</b>	<b>1,376</b>
Long-term debt	3,550		3,544	3,594	3,544	3,494	3,449	3,404	3,364
Off balance sheet debt	448		448	348	248	148	48	(52)	(152)
Other liabilities	1,010		910	810	710	610	510	410	310
Deferred income taxes	343		356	396	447	501	556	611	666
Minority interest	0		10	20	30	40	50	60	70
Preferred equity	93		81	71	61	51	41	31	21
Shareholders' equity	1,714		1,587	1,702	1,830	1,967	2,103	2,242	2,380
<b>Total liabilities and equity</b>	<b>8,225</b>		<b>8,286</b>	<b>8,165</b>	<b>8,166</b>	<b>8,156</b>	<b>8,061</b>	<b>8,022</b>	<b>8,035</b>
Accounts receivable/sales	7.50%		7.50%	9.00%	10.50%	12.00%	12.00%	12.00%	12.00%
Inventories/sales	8.50%		8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
Accounts payable/sales	13.01%		17.17%	17.95%	18.81%	19.71%	19.12%	19.29%	20.17%

Source: Company reports, John Tumazos Very Independent Research, LLC estimates.

## ESTIMATED PACE OF FUTURE ANNUAL DEBT REPAYMENTS AND FORECASTED YEAR-END 2013 TANGIBLE NET WORTH AND TOTAL DEBT-LIKE LIABILITIES

We estimate SSCC earns moderate profits, has no common dividends or share repurchases, and has capital spending typically 75% of depreciation. This should

generate gradual cash to repay debts and employee benefit liabilities. We estimate the company can pay down 25% of today's debt-like obligations over seven years, and halve its negative tangible net worth.

We estimate that long term debt will decrease slowly as Smurfit continues to consolidate. We estimate long term debt and long-term liabilities will be \$3.63 billion by 2013. We estimate 2013 tangible net worth at negative \$500 million compared to the current negative \$976 mm level.

#### HIGHER SELLING PRICE AND EBIT COST BASIS PER TON PREVENT PROFIT MARGINS PER TON FROM BEING AS HIGH AS FORECASTED

SSCC's cost per ton has been near \$900 versus our estimate of \$836 per ton. Higher energy costs, transportation, fiber and lower box plant utilization have penalized it. There has not been evidence of price cuts to combat box plant customer defections as SSCC realigns plants.

Selling prices have averaged \$996 versus our estimate of \$906 per ton. Virtually full utilization rates and strong export demand have given producers pricing power. SSCC's high interest and administrative costs detract from its ability to earn large profits even with reasonably good pricing gains.

#### BOX SHIPMENTS FALL ABOUT 1.25 BIL.SQ FT EACH QUARTER YTD

SSCC has not retained all customers as it has rationalized about one box plant each month. While industry shipments are down 1.2% this year, SSCC's appear trending toward a nearly 6.25% decline.

We lowered our estimate of box shipments from 79.5 in 2006 and from a prior 77.3 bil sq ft estimate for 2007 to 74.4 bil sq ft this year. While we had expected some customer losses, they were more than expected.

#### CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

#### DISCLOSURES

“John Tumazos Very Independent Research, LLC” (JTVIR) is a Delaware Corporation with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Except for Polymet Mining and Canyon Resources, neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure. Our only financial interest in a stock we regularly cover is Polymet Mining shares bought in April 2007.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine

valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d'Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thyphin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or "due diligenced" for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International. Alcan, which Rio Tinto soon will acquire, also will be discontinued from coverage. Bowater, which will merge with Abitibi-Consolidated, also will be dropped after the merger completion.

Subsequently, since September 2007 JTVIR, LLC has initiated coverage of new companies not previously covered in the former universe. These new companies include General Moly, Inc., Duluth Metals, Polymet Mining, Franconia Minerals, CVRD and Century Aluminum.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of "Overweight," "Neutral Weight," and "Underweight" most closely correspond with the more traditional ratings of "Buy," "Hold," and "Sell," respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor's decision to buy or sell a security should always take into account, among other things, that the investor's particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

### **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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