IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 15
CATALYST PAPER CORP., et al.,	:	Case No. 12-10221 (PJW)
Debtors.[1]	:	Jointly Administered
	:	**Related Docket Nos. 99, 100, 105**
	:	**Hearing: April 17, 2012 (9:30 am EST)**

REPLY OF CATALYST PAPER CORPORATION TO OBJECTION OF 2014 NOTEHOLDERS TO DEBTORS' MOTION TO ENFORCE CANADIAN COURT ORDER CONCERNING SALE AND INVESTMENT SOLICITATION PROCEDURES

Catalyst Paper Corporation ("CPC"), as the authorized foreign representative for itself and its above-captioned affiliates (collectively, the "Debtors" and, together with their non-debtor affiliates, the "Company") in a proceeding (the "CCAA Proceeding") under Canada's *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA"), *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, and *Business Corporations Act*, S.B.C. 2002, c.57, before the Supreme Court of British Columbia (the "Canadian Court"), hereby submits this reply (the "Reply") to the *Objection of 2014 Noteholders to Debtors' Motion to Enforce Canadian Court Order Concerning Sale and Investment Solicitation Procedures* [Docket No. 105] (the "Objection"), filed in response to CPC's *Motion of Debtors for Order (I)*

[1] These jointly administered cases are those of the following Debtors: 0606890 B.C. Ltd., Catalyst Paper Corporation, Catalyst Paper Energy Holdings Inc., Catalyst Paper General Partnership, Catalyst Pulp and Paper Sales Inc., Catalyst Pulp Operations Ltd., Catalyst Pulp Sales Inc., Elk Falls Pulp and Paper Ltd., and Pacifica Poplars Ltd. (collectively, the "Canadian Debtors") in addition to Catalyst Paper Holdings Inc., Pacifica Papers U.S. Inc., Pacifica Poplars Inc., Pacifica Papers Sales Inc., Catalyst Paper (USA) Inc., Catalyst Paper (Recycling) Inc., Catalyst Paper (Snowflake) Inc., and The Apache Railway Company (collectively, the "U.S. Debtors").

Enforcing Canadian Court Order In Connection With Sale and Investor Solicitation Procedures and (II) Approving Protocol for a Joint Cross-Border Hearing [Docket No. 99] (the "Motion"). In further support of this Reply, CPC is filing the supporting declaration of Brian Baarda (the "Seventh Baarda Declaration") concurrently herewith, and respectfully represents as follows:

PRELIMINARY STATEMENT

The unidentified unsecured bondholders who have filed the Objection (the "Objecting Holders") misunderstand the relief requested in the Motion as well as the underlying statute. By the Motion, the Debtors request enforcement of the SISP Order in the United States to confirm that all parties, including bidders and the Debtors, are bound by one, unified Sale Process (as defined below). Following a Plan Failure (as defined below), the Debtors, with the support of the independent fiduciary PricewaterhouseCoopers as monitor (the "Monitor") and substantial creditor constituencies, believe that this unified approach is critical to maximizing the value of the Debtors' assets located in their home country and abroad, here in the United States. Accordingly, the Objecting Holders' arguments regarding an ultimate sale (which will be the subject of a separate motion under section 363 of the Bankruptcy Code) are premature, not to mention misplaced. In addition, the Objecting Holders' complaints about the Stalking Horse Agreement (as defined below) ignore its context and rely upon statutes and authority which are simply inapplicable. Accordingly, the Objection should be overruled, and the Motion granted.

BACKGROUND

(A) General Background and the Restructuring Support Agreement

1. General background regarding the Debtors' operations, the events leading up to the restructuring, and the second Restructuring Support Agreement (as amended, the "Second

RSA") are detailed in the Motion and in the *Second Declaration of Brian Baarda* [Docket No. 39] (the "Second Baarda Declaration").

(B) The Canadian SISP Order and Stalking Horse Order

2. The Canadian Court issued an order approving the sale and investor solicitation procedures (as amended, the "Bidding Procedures") on March 22, 2012 (the "Canadian SISP Order"). In the Canadian SISP Order, the Canadian Court (i) authorized and directed the Debtors, to enter into that certain purchase and sale agreement (the "Stalking Horse Agreement") in substantially the form attached to the Canadian Stalking Horse Order (as defined below), (ii) authorized and directed the Debtors to conduct the sale and investor solicitation process (the "Sale Process") as set forth in the Bidding Procedures, (iii) approved the reimbursement of the stalking horse's professional fees and expenses incurred in connection with the development of the Stalking Horse Agreement and participation in the Sale Process in an amount not to exceed $1,000,000 (the "Expense Reimbursement"), (iv) requested the aid of this Court in granting approval of the Bidding Procedures in these chapter 15 cases and (v) requested the aid and recognition of this Court in enforcing and giving effect to the order of the Canadian Court and to assist the Debtors and their agents in carrying out the terms of the order. Canadian SISP Order, ¶¶ 5, 6, 7, 8, 10. A true and correct copy of the Canadian SISP Order is attached to the *Sixth Declaration of Brian Baarda* [Docket No. 100]. The Objecting Holders opposed entry of the Canadian SISP Order, and their objections were overruled. See Seventh Baarda Declaration, ¶ 11.

3. On April 4, 2012, the Canadian Court issued an order approving the terms of the Stalking Horse Agreement (the "Canadian Stalking Horse Order"). In the Canadian Stalking Horse Order, the Canadian Court (i) approved and accepted the form of Stalking Horse

Agreement attached thereto, (ii) approved certain amendments to the Bidding Procedures as reflected in the amended Bidding Procedures attached thereto, and (iii) requested the aid and recognition of this Court in enforcing and giving effect to the order of the Canadian Court and to assist the Debtors and their agents in carrying out the terms of the order. Canadian Stalking Horse Order, ¶¶ 1, 2, 3. A true and correct copy of the Canadian Stalking Horse Order as entered by the Canadian Court, including all appendices thereto, is attached to the Seventh Baarda Declaration as Exhibit A. The Objecting Holders opposed entry of the Canadian Stalking Horse Order, and their objections were overruled. See Seventh Baarda Declaration, ¶ 11.

4. On April 10, 2012, the Monitor issued its Ninth Report to Court (the "Ninth Monitor's Report"), providing information regarding certain of the Debtors' assets which are unencumbered by the liens of the holders of 11% senior secured notes due December 15, 2016 (such notes, the "2016 Notes," and such holders, collectively, the "2016 Noteholders"). A true and correct copy of the Ninth Monitor's Report, including all publicly released appendices thereto, is attached to the Seventh Baarda Declaration as Exhibit B.

5. The Stalking Horse Agreement by and among the Debtors and CP Acquisition, LLC (the "Stalking Horse") is subject to higher and better offers obtained through the Sale Process and will be executed, if at all, shortly after the Debtors fail to achieve the requisite acceptance of the Plan on the timeline set forth in the Second RSA (such failure, a "Plan Failure"). The Stalking Horse is an entity formed by the holders of a majority of the aggregate principal amount of the 2016 Notes (collectively, such holders, the "Required 2016 Noteholders"). To be clear, as noted above and as described in the Motion, the Stalking Horse Agreement or other proposed agreement resulting from the Bidding Procedures will be pursued only in the event following a Plan Failure.

ARGUMENT

A. The Debtors Seek Enforcement of a Properly Entered Canadian Order; They Do Not Seek to Consummate a Sale Under Section 363 of the Bankruptcy Code

6. As a threshold matter, the Objecting Holders misinterpret the relief sought by CPC in its Motion, and the standard applicable to such relief. The Debtors are seeking, among other things, entry of an order enforcing and giving effect to the Canadian SISP Order in the United States. Following a Plan Failure, the Debtors must be able to implement the Bidding Procedures as necessary without further delay, in order to preserve the value of the estate as a whole. Any sale of assets located in the United States, pursuant to the Bidding Procedures or otherwise, remains subject to the filing of a separate motion seeking approval of the consummation of the sale contemplated under the Stalking Horse Agreement (the "Sale Motion"), in accordance with section 363 of title 11 of the United States Code (the "Bankruptcy Code"), the Federal Rules of Bankruptcy Procedure, and the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware.

7. In its Motion, CPC specifically states that the Debtors are not seeking approval of any sale under section 363 of the Bankruptcy Code. Motion, ¶ 20. Although section 363 is now generally applicable to these proceedings through the operation of section 1520 of the Bankruptcy Code, the Debtors are seeking enforcement of the validly entered Canadian SISP Order under sections 1521(b), 1521(a)(7) and 1527 of the Bankruptcy Code. Id. at ¶¶ 27 – 31. Relief similar to that requested by the Motion has been granted in other chapter 15 cases in this district. See, e.g., In re EarthRenew IP Holdings LLC, No. 10-13363 (Bankr. D. Del. Nov. 10, 2010) (giving full force and effect to Canadian order, issued under Bankruptcy and Insolvency Act, setting forth sale process procedures and approving breakup fee approved in foreign proceeding); In re Wellpoint Sys. Inc., No. 11-10423 (Bankr. D. Del. Feb. 25, 2011) (same).

8. Notably, the Objecting Holders fail to allege that this Court should decline to enforce the Canadian SISP Order based upon the provisions of Chapter 15 that do apply, namely for reasons of public policy, or in order to protect the interests of creditors and other interested entities. As discussed in the Motion, the enforcement of the Canadian SISP Order will ultimately enhance the potential value available to creditors and other stakeholders, as the Sales Process is designed to ensure that any sale transaction undertaken pursuant to the Bidding Procedures will provide the highest or otherwise best available recovery for the Debtors' stakeholders. Motion, ¶¶ 32 – 33. Furthermore, the relief requested is not "manifestly contrary to the public policy of the United States" as prohibited by section 1506 and therefore the narrowly-construed public policy exception should not be applied here. 11 U.S.C. § 1506; see also In re Qimonda AG Bankruptcy Litigation, 433 B.R. 547, 570 (E.D. Va. 2010) (holding that the public policy exception may be implicated where the proposed action "would impinge severely a U.S. constitutional or statutory right").

9. As noted above, the Debtors seek enforcement of the Canadian SISP Order in order to confirm for the benefit of all parties, including bidders, the Debtors and their stakeholders, that a single, unified set of bidding procedures will control this Sale Process. The implementation of inconsistent or divergent procedures with respect to the marketing and disposition of the Debtors' assets in Canada, on the one hand, and in the United States, on the other, could not only hinder the Debtors' restructuring efforts, but could also detract from the value of the Debtors' estates and ultimately have a detrimental effect on stakeholder recovery. See Seventh Baarda Declaration, ¶ 8.

B. The Stalking Horse Bid Does Promote the Maximization of Value

10. The Debtors, in an exercise of their business judgment, and after extensive consultations with both the Monitor and the 2016 Noteholders, have determined that the Bidding Procedures, including the bid represented by the terms of the Stalking Horse Agreement (the "Stalking Horse Bid"), promote the maximization of value for the benefit of the Debtors' estates, apart from implementation of the proposed CCAA Plan of Compromise and Arrangement (the "Plan").

11. The Debtors have received multiple expressions of interest from potential purchasers in individual, non-core assets, and have also received expressions of interest from potential purchasers in individual core assets. See Seventh Baarda Declaration, ¶ 5. Nonetheless, the Debtors, in an exercise of their business judgment, have determined that pursuing a global, broad-based bid for the Debtors' going-concern operations and assets will maximize value for the business enterprise, its creditors, and its stakeholders. See id.

12. As further described in the Motion and the Seventh Baarda Declaration, the Debtors are operating under various time constraints, and the insolvency process in which they are engaged has distracted management and diverted substantial resources from their core businesses. See Motion, ¶ 32; Seventh Baarda Declaration, ¶ 6. In light of these pressures, the Debtors, again exercising their business judgment, determined that it was exceedingly unlikely that the Debtors would be able to successfully negotiate the terms of a stalking horse bid with any entity other than the Required 2016 Noteholders on a timely basis. See Seventh Baarda Declaration, ¶ 7. In pursuing this course of action, the Debtors engaged in heated and lengthy negotiations with the Required 2016 Noteholders regarding the terms of the Stalking Horse Agreement. See id. As a consequence, the Debtors, the Monitor and a substantial cross-section of the Debtors' stakeholders all agree that the Debtors obtained the best bid, which still remains

subject to higher and better bids, that they could obtain under the circumstances. See id. In the absence of the Stalking Horse Agreement, the Debtors would be put in the untenable position of commencing a Sale Process with no ability to encourage or entice bidders to pursue their going-concern operational assets as a whole, to the great detriment of the Debtors' stakeholders. Even assuming that bidders would provide broad-based bids in that environment, they would lack structure and consistency that the existence of the Stalking Horse Agreement fosters. See id.

13. The Objecting Holders separately allege that the Expense Reimbursement contained in the Stalking Horse Agreement is not justified and does not otherwise satisfy the standard imposed by O'Brien[2] and its progeny. Objection, ¶ 13. However, as noted in the Motion, pursuant to section 103(a) of the Bankruptcy Code, section 503 of the Bankruptcy Code, and by extension O'Brien and its related cases, does not apply in chapter 15 cases. See Motion, ¶ 36; 11 U.S.C. 103(a).

14. More importantly, however, even if it were true that certain of the 2016 Noteholders would have submitted a bid for the Debtors' assets without the Expense Reimbursement, the Objecting Holders miss the benefits that the Stalking Horse Agreement provides. As noted above, the existence of the Stalking Horse Agreement provides a platform by which to measure other broad-based, going concern bids, which the Debtors urgently require. Second, the negotiation of the Stalking Horse Agreement necessarily brought together a critical mass of 2016 Noteholders for the support not only of the Sale Process, but also for the Second RSA and, of course, the Plan, which is the Debtors' preferred mode of reorganizing. In these ways, the Stalking Horse Agreement generated substantial benefits which merit the Expense

[2] Calpine Corp. v. O'Brien Envtl. Energy, Inc. (In re O'Brien Envtl. Energy, Inc.), 181 F.3d 527 (3d Cir. 1999).

Reimbursement under any applicable standard. See, e.g., In re Friendly Ice Cream Corporation, No. 11-13167 (Bankr. D. Del. Nov. 3, 2011) (approving stalking horse expense reimbursement fee over objections that stalking horse might have bid for debtor assets without reimbursement); In re Evergreen Solar, Inc., No. 11-12590 (Bankr. D. Del. Sep. 9, 2011) (approving reasonable expense reimbursement for stalking horse). The Objecting Holders raised this objection to the Expense Reimbursement in the CCAA Proceeding[3] and, notwithstanding the Objecting Holders' arguments, the Canadian Court ultimately approved the Bidding Procedures. See Canadian SISP Order.

15. Lastly, as a practical matter, the Debtors are already obligated to pay the reasonable and documented fees of the 2016 Noteholders, pursuant to the terms of this Court's *Order Granting Final Relief for Recognition of a Foreign Main Proceeding Pursuant to 11 U.S.C. §§ 105(a), 1517, 1519, 1520, and 1521* [Docket No. 89] (the "Recognition Order") and the relevant Canadian court orders. See Recognition Order, ¶ 10(a). Therefore, the Debtors must pay these amounts in any event, regardless of how they are characterized. See Seventh Baarda Declaration, ¶ 9.

C. The Stalking Horse Bid Is Not Illusory

16. The Objecting Holders next argue that the Stalking Horse Bid is illusory, granting the Required 2016 Noteholders "a free option," "binding them to nothing." Objection, ¶ 14.[4]

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[3] See Application Response, filed on March 20, 2012, by Ad Hoc Unsecured 2014 Noteholders' Committee, ¶ 9. A true and correct copy of the Application Response is attached to the Seventh Baarda Declaration as Exhibit C.

[4] Notably, the Objecting Holders also raised a nearly identical objection in the CCAA Proceeding and, notwithstanding the Objecting Holders' arguments, the Canadian Court ultimately approved the terms of the Stalking Horse Agreement. See Application Response, filed on March 29, 2012, by Ad Hoc Unsecured 2014 Noteholders' Committee, ¶ 6 ("[t]he Stalking Horse Purchase Agreement is totally illusory and is an 'agreement' in name only"). A true and correct copy of the Application Response is attached to the Seventh Baarda Declaration as Exhibit D.

Specifically, the Objecting Holders allege that the Debtors have no meaningful way "to force [the 2016s Noteholders] to fulfill any promise," as the Stalking Horse may be a judgment-proof entity[5]. Objection, ¶ 14. However, pursuant to the terms of the Second RSA, the 2016 Noteholders commit to, among other things, "support the SISP … and the transactions consummated thereunder," by supporting the SISP, the Canadian SISP Order, and "the sale by way of credit bid under the SISP," and also commit not to interfere with "the implementation of the SISP (including any credit bid up to the full amount of the obligations outstanding under the 2016 Indentures by or on behalf of the holders of the 2016 Notes)". Second RSA, § 3.1(a)(iv) and (v). Furthermore, any breach of the Second RSA, including a failure to abide by the commitments described above, entitles the non-breaching party to "specific performance and injunctive or other equitable relief as a remedy." Id. at § 8.13. Therefore, the 2016 Noteholders have committed to the Sales Process and the Bidding Procedures, and the Debtors do in fact have an effective recourse, if necessary, not only by compelling the consummation of the Stalking Horse Agreement, if necessary, but also by subjecting the 2016 Noteholders' claims to offset for damages occasioned by a breach of their obligations under the Second RSA.

17. The Objecting Holders likewise allege that there is no evidence that the Stalking Horse has the necessary authority to credit bid. As the Objecting Holders concede, however, pursuant to the terms of the Stalking Horse Agreement, the Stalking Horse represents and warrants at the time of signing the Stalking Horse Agreement that Wilmington Trust, National Association, as the trustee (the "Trustee"), and Computershare Trust Company of Canada, as the collateral trustee (the "Collateral Trustee"), have been directed in writing by the Required 2016 Noteholders, as required in accordance with various loan documents for the 2016 Notes, "and

[5] It should be noted that the Objecting Holders have not provided any foundation for this speculation.

pursuant to Section 363 of the U.S. Bankruptcy Code or other applicable law" to submit a credit bid for the Debtors' assets. Stalking Horse Agreement, § 3.7. Furthermore, the Trustee and Collateral Trustee will provide to the Debtors an instruction letter from the Required 2016 Noteholders (the "Bid Direction Letter") within two (2) days following a Plan Failure. Id. As discussed above, the 2016 Noteholders have committed, in the Second RSA, to support the implementation of the Bidding Procedures, including the submission of a credit bid. The Trustee and Collateral Trustee for the 2016 Notes will take the affirmative step of formally delivering the Bid Direction Letter to the Debtors, satisfying the Debtors that the Trustee and Collateral Trustee been authorized and directed by the Required 2016 Noteholders to submit a credit bid for the Debtors' assets.

18. Contrary to the suggestions made by the Objecting Holders, the credit bid scenario here is entirely different from the facts presented by *In re Electroglas, Inc.*, cited by the Objecting Holders. 2009 Bankr. LEXIS 5527 (Bankr. D. Del. Sept. 23, 2009). In that case, two minority groups of noteholders attempted to bid all or only their portion of certain issued notes, over the trustee's objection. Id. at *7. That is clearly not the situation here. Neither the Trustee nor the Collateral Trustee has given any indication that they would object to the submission of a credit bid; in fact, the Debtors are satisfied that both the Trustee and the Collateral Trustee support the submission of the credit bid. The Court in *Electroglas* also found that under the terms of the indenture agreement, the trustee "[had] the power to credit bid," and a majority of noteholders may request that the Trustee "take a specific substantive action, such as credit bidding." Id. at *7, 9. Here, the Required 2016 Noteholders will authorize and direct the Trustee and Collateral Trustee to submit a credit bid. As noted above, it is the Debtor's understanding that the Trustee and Collateral Trustee intend to comply with the request of the Required 2016

Noteholders. In any event, it would seem that this objection is more appropriately lodged when the Debtors file a motion for authority to consummate the Stalking Horse Agreement under section 363.

19. Likewise, the Objecting Holders complain that the Stalking Horse Agreement is incomplete and does not identify particular assets or their values and that the Stalking Horse itself may be unable to close. Objection, ¶ 14. Again, these objections, particularly as to the ability to close, are more appropriately lodged when the Debtors file a motion for authority to consummate the Stalking Horse Agreement under section 363, rather than now and, furthermore, these specific objections have already been unsuccessfully raised[6] in the CCAA Proceeding. Nonetheless, contrary to the Objecting Holder's assertions, the Stalking Horse Agreement does contain a description of assets to be purchased, see Schedule 2.1(b)(x)[7], the Monitor's Report contains additional information regarding the transaction and the Purchaser Disclosure Letter referenced in the Objection is required to be complete when the Debtors file their motion for approval to consummate the Stalking Horse Agreement.

D. The SISP Does Not Inhibit Bidding

20. The contentions of the Objecting Holders notwithstanding, the Bidding Procedures contain typical and customary provisions that may be found in countless examples of approved bidding procedures. Specifically, the Objecting Holders complain that the Bidding

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6 See Application Response, filed on March 29, 2012, by Ad Hoc Unsecured 2014 Noteholders' Committee, ¶ 6 ("(a) there is no evidence that the Purchaser actually exists and/or is sufficiently capitalized; (b) the Stalking Horse Purchase Agreement provides no remedies against the Purchaser if it fails to close on a transaction; (c) there is no evidence that the Purchaser has authority to deliver a credit bid, … and (d) the Purchaser has not even identified which assets it *might* be willing to buy") (emphasis in original).

7 Schedule 2.1(b)(x) to the Stalking Horse Agreement was filed as Exhibit B to the Fourth Affidavit of Andrew Crabtree, filed in the CCAA Proceeding on March 30, 2012. A true and correct copy of the Fourth Affidavit of Andrew Crabtree is attached to the Seventh Baarda Declaration as Exhibit E.

Procedures grant the 2016 Noteholders consultation rights at various points in the Sale Process. As the Court is aware, the 2016 Noteholders represent the Debtors' largest prefiling secured constituency. It is hardly unusual for such a constituency to have consultation rights with respect to the sale of its own collateral. That is not to say that the 2016 Noteholders have "control" over the process as alleged by the Objecting Holders. The consultation rights do not provide the 2016 Noteholders with any veto rights, but only require that the Debtors solicit input from the 2016 Noteholders with respect to certain decisions made during the Sale Process.

21. Moreover, the Bidding Procedures afford the Monitor, who represents the rights of other constituencies, including the Objecting Holders and the unsecured creditors of the Debtors, broader consultation rights than those granted to the 2016 Noteholders. See Bidding Procedures, 22, 26(r), 27(n) (granting consultation rights to both the 2016 Noteholders and the Monitor). As an independent fiduciary appointed by the Canadian Court that serves the interest of all of the Debtors' stakeholders, the Monitor represents the interests of, among others, the Debtors' unsecured creditors and the Objecting Holders. Accordingly, the Monitor is afforded much broader and more extensive consultation rights in the Bidding Procedures than any other single constituency, including the 2016 Noteholders. See Bidding Procedures, ¶¶ 3, 7 – 9, 10(a), 10(b), 11, 15, 18, 21, 26(e), 26(k), 26(p), 27(d), 27(i), 27(l), 29, 32, 33(b), 33(h) – (k), 36, 39, 54 (granting consultation rights to the Monitor, without a similar grant to the 2016 Noteholders). No party is prejudiced by these consultation rights; rather, they ensure that all constituencies have an opportunity to participate in the Sale Process. Again, the Objecting Holders raised this objection in the CCAA Proceeding[8], and the Debtors responded to such objection before the

[8] See Application Response, filed on March 20, 2012, by Ad Hoc Unsecured 2014 Noteholders' Committee, ¶¶ 9, 12.

Canadian Court; notwithstanding the Objecting Holders' arguments, the Canadian Court ultimately approved the Bidding Procedures. See Canadian SISP Order.

22. Likewise, the allocation provisions of the Stalking Horse Agreement referred to in the Objection do not act as a disincentive to other bidders; rather they allow the Stalking Horse the same rights that other bidders already have, under the Bidding Procedures. See Stalking Horse Agreement § 5.1(b); Objection, ¶ 15. Specifically, the Bidding Procedures allow prospective bidders to bid on one or more Parcels (as defined in the Bidding Procedures), and also clearly require qualified bids to include "a clear allocation of the Purchase Price" both among U.S. assets and Canadian assets, and in respect of the Senior Secured Notes Excluded Assets. Bidding Procedures ¶ 26(c). As the Stalking Horse is not required to allocate its bid pursuant to this provision in the Bidding Procedures, and is bidding on a majority of the assets, an allocation provision in the Stalking Horse Agreement simply provides the Stalking Horse with the same rights that the other bidders have been granted, in the event that there are multiple rounds of bidding on individual assets. This is designed to promote active bidding on individual assets, not threaten it.

E. The Participation of the 2016 Noteholders is Consistent With Their Status as Major Stakeholders

23. Finally, the Objecting Holders accuse the Debtors of having "sold out their fiduciary duties" to the Required 2016 Noteholders, citing a provision of the Second RSA. Far from having "sold out" their fiduciary duties, the Debtors have acted in the best interests of their estates and their various stakeholders, acting in accordance with their business judgment to maximize value and enhance recoveries for all parties in interest.

24. As a threshold matter, the Objecting Holders correctly note that the Debtors are not asking this Court to approve the Second RSA, making their objections to its terms irrelevant. Objection, ¶ 16.

25. As a substantive matter, however, the Objecting Holders fail to explain how the allegedly offensive provision of the Second RSA improperly constrains the Debtors. Specifically, the cited provision states that the Debtors may terminate the Second RSA consistent "with the exercise of fiduciary duties imposed on CPC's board of directors by law" and the alternative transaction that the Debtors elect to pursue that is inconsistent with the Second RSA must "provide[] for the repayment in full in cash of the principal amount of the 2016 Notes." Second RSA, § 6.2(c). The Debtors, consistent with their fiduciary duties to their stakeholders, have already developed and are pursuing two parallel, alternative strategies (*i.e.*, the Plan and Sale Process) described in detail in the Motion. See Motion, pg. 3. The Debtors fail to comprehend what third strategy could exist to which they could bind the 2016 Noteholders without their consent. Accordingly, the Second RSA simply reflects this reality—in other words, if the Debtors choose to vary their path from the Second RSA, they must pay the 2016 Notes or otherwise obtain the consent of the 2016 Noteholders.

26. The Debtors have engaged its major stakeholders in negotiations since at least the fall of 2011, well before the formal proceedings were filed in Canada. See Second Baarda Declaration, ¶ 24. As noted previously, the Debtors have also met with the Objecting Holders on multiple occasions, though the Objecting Holders have yet to make a concrete restructuring proposal to the Debtors. *Reply of Catalyst Paper Corporation to (I) Secured Creditors' Responses to Amended Motion for Final Recognition of a Foreign Proceeding and (II) Objection of 2014 Noteholders to Final Recognition of Foreign Proceeding as to U.S. Debtors* [Docket No.

82], ¶ 9. As the Debtors' largest secured stakeholder, holding notes with a face value of nearly $390 million which are secured by a first lien on the majority of the Debtors' assets,[9] the 2016 Noteholders have naturally taken an active interest in the Debtors' restructuring proceedings. Given the size and nature of the 2016 Noteholders' economic stake, the Debtors cannot implement an alternative restructuring transaction without the support of the 2016 Noteholders. The Debtors have exercised their business judgment in engaging the 2016 Noteholders in order to garner support for the Debtors' proposed transactions, and have sought to maximize value for all stakeholders pursuant to a consensual Plan, which approach the Debtors are currently pursuing. In the event that the Plan process proves unsuccessful, the Debtors plan to, subject to the approval of this Court, pursue the Sale Process in order to preserve the value of their assets and maximize recovery for all stakeholders.

CONCLUSION

The Debtors respectfully request that this Court (i) overrule the Objection, (ii) enter the proposed Order, substantially in the form attached to the Motion as Exhibit A, and (iii) grant any such other and final relief as this Court deems just and proper.

Dated: Los Angeles, California
April 12, 2012

/s/ Van C. Durrer, II
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[9] Second Baarda Declaration, ¶ 16 – 17.

File an answer to a motion:

12-10221-PJW Catalyst Paper Corporation

Type: bk	Chapter: 15 v	Office: 1 (Delaware)
Assets: y	Judge: PJW	Case Flag: CLAIMS, MEGA, LEAD

U.S. Bankruptcy Court

District of Delaware

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12-10221-PJW Notice will be electronically mailed to:

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