

MERCER INTERNATIONAL INC.

Form T-3

November 25, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM T-3
APPLICATION FOR QUALIFICATION OF INDENTURE
UNDER THE
TRUST INDENTURE ACT OF 1939, AS AMENDED
MERCER INTERNATIONAL INC.**

(Name of Applicant)

Suite 2840, 650 West Georgia Street, Vancouver, British Columbia, Canada V6B 4N8

(Address of principal executive offices)

SECURITIES TO BE ISSUED UNDER THE INDENTURE TO BE QUALIFIED

| TITLE OF CLASS | AMOUNT |
|---|---|
| 8.5% Convertible Senior Subordinated Notes due 2012 | Up to aggregate principal amount of \$72,500,000* |

Approximate date of proposed Exchange:

As soon as practicable after the date of this Application for Qualification

Name and address of agent for service:

With a copy to:

**H.S. Sangra, Esq.
Sangra Moller LLP
Barristers & Solicitors
1000 925 West Georgia Street
Vancouver, British Columbia
Canada V6C 3L2**

**David R. Wilson, Esq.
Davis Wright Tremaine LLP
Suite 2200
1201 Third Avenue
Seattle, Washington 98101-3045**

* The actual aggregate principal amount of 8.5% Convertible Senior Subordinated Notes due 2012 to be issued pursuant to the Indenture, which is defined below, may be less and depends upon the aggregate amount of 8.5% Convertible Senior Subordinated Notes due 2010 that are exchanged as described in Item 2.

The Applicant hereby amends this application for qualification on such date or dates as may be necessary to delay its effectiveness until: (1) the 20th day after the filing of a further amendment which specifically states that it shall supersede this application for qualification or (2) such date as the Securities and Exchange Commission, acting pursuant to Section 307(c) of the Trust Indenture Act of 1939, as amended, may determine upon the written request of the Applicant.

TABLE OF CONTENTS

| | |
|--|----|
| <u>ITEM 1. GENERAL INFORMATION</u> | 3 |
| <u>ITEM 2. SECURITIES ACT EXEMPTION APPLICABLE</u> | 3 |
| <u>ITEM 3. AFFILIATES</u> | 3 |
| <u>ITEM 4. DIRECTORS AND EXECUTIVE OFFICERS</u> | 4 |
| <u>ITEM 5. PRINCIPAL OWNERS OF VOTING SECURITIES</u> | 4 |
| <u>ITEM 6. UNDERWRITERS</u> | 5 |
| <u>ITEM 7. CAPITALIZATION</u> | 5 |
| <u>ITEM 8. ANALYSIS OF INDENTURE PROVISIONS</u> | 5 |
| <u>ITEM 9. OTHER OBLIGORS</u> | 8 |
| <u>SIGNATURE</u> | 10 |
| <u>EXHIBIT INDEX</u> | |
| <u>Form of Indenture between the Company and Wells Fargo Bank, National Association, as Trustee.</u> | |
| <u>Form T-1</u> | |
| <u>EX-T3C</u> | |
| <u>EX-T3E</u> | |
| <u>EX-T3G</u> | |

Table of Contents**GENERAL****ITEM 1. GENERAL INFORMATION.**

(a) Mercer International Inc. (the Company or Applicant) is a corporation.

(b) The Company is organized under the laws of the State of Washington.

ITEM 2. SECURITIES ACT EXEMPTION APPLICABLE.

The Company may issue up to \$72,500,000 aggregate principal amount of its new 8.5% Convertible Senior Subordinated Notes due 2012 (the New Notes). The Company may issue the New Notes in one or more exchange transactions with holders (the Holders) of the Company s existing 8.5% Convertible Senior Subordinated Notes due 2010 (the Old Notes) pursuant to one or more exchange agreements, the form of which is filed as Exhibit T3.1 hereto and which is incorporated herein by reference. The New Notes will be issued under the indenture (the Indenture) to be qualified by this Application for Qualification on Form T-3 (the Application). No exchanges of Old Notes will be accepted, and no New Notes will be issued, before the effectiveness of this Application.

The New Notes will be issued by the Company to the Holders in reliance on the exemption provided in Section 3(a)(9) of the Securities Act of 1933, as amended. No sales of securities of the same class as the New Notes have been or are to be made by the Company by or through an underwriter at or about the same time as the Exchange for which the exemption is claimed. No consideration has been, or is to be, given, directly or indirectly, to any person in connection with such exchange, except for payment by the Company of the fees and expenses of its legal advisors for their legal services and Wells Fargo Bank, National Association, for its services as trustee under the Indenture. None of the Holders has made or will be requested to make any cash payment to the Company in connection with such exchange, other than payment of any applicable taxes.

AFFILIATIONS**ITEM 3. AFFILIATES.**

For purposes of this Application only, the Company s directors and executive officers may be deemed to be affiliates of the Company. See Item 4 Directors and Executive Officers for a list of the Company s directors and executive officers, which is incorporated herein by reference.

The following is a list of entities that may be deemed affiliates of the Company as of the date of this Application. The Company owns, directly or indirectly, 100% of the outstanding capital stock of each of its subsidiaries, except where otherwise indicated.

| Name of Affiliate | Jurisdiction of Incorporation | Percentage Owned by Mercer |
|--------------------------------------|--|---------------------------------------|
| ZPR GmbH | Germany | 100% |
| ZPR Logistik GmbH | Germany | 100% |
| Zellstoff Stendal GmbH | Germany | 74.9% |
| Zellstoff Celgar Limited | British Columbia, Canada | 100% |
| Zellstoff Celgar Limited Partnership | British Columbia, Canada | 100% |
| Stendal Pulp Holding GmbH | Germany | 100% |
| ZS Holz Beteiligungs GmbH | Germany | 100% |
| Zellstoff Stendal Holz GmbH | Germany | 100% |
| Zellstoff Stendal Transport GmbH | Germany | 100% |
| D&Z Holding GmbH | Germany | 100% |
| D&Z Beteiligungs GmbH | Germany | 100% |
| Papierfabrik Fährbrücke GmbH | Germany | 100% |
| Mercer International Finance LLC | Washington, USA | 100% |
| Mercer Pulp Sales GmbH | Germany | 100% |
| Mercer International Inc. (Yukon) | Yukon, Canada | 100% |
| Babington Ltd. | Liberia | 100% |
| Mercer Investments AG | Switzerland | 100% |

Can Kor Development (Far East) Ltd.

Hong Kong

100%

3

Table of Contents**MANAGEMENT AND CONTROL****ITEM 4. DIRECTORS AND EXECUTIVE OFFICERS.**

The following table sets forth the names of, and all offices held by, all executive officers and directors (as defined in Sections 303(5) and 303 (6) of the Trust Indenture Act of 1939 (the "TIA"), respectively, of the Company. The mailing address for each executive officer and director listed below is c/o Mercer International Inc., Attention: David Gandossi, Suite 2840, 650 West Georgia Street, Vancouver, British Columbia, Canada V6B 4N8.

| Name | Position |
|----------------------|--|
| Jimmy S.H. Lee | Director, Chairman of the Board, President and Chief Executive Officer |
| Kenneth A. Shields | Lead Director, Vice Chairman |
| William D. McCartney | Director |
| Graeme A. Witts | Director |
| Eric Lauritzen | Director |
| Guy W. Adams | Director |
| George Malpass | Director |
| David M. Gandossi | Secretary, Executive Vice President and Chief Financial Officer |
| Claes-Inge Isacson | Chief Operating Officer |
| David K. Ure | Vice President, Controller |
| Leonhard Nossol | Group Controller for Europe |
| David M. Cooper | Vice President of Sales and Marketing for Europe |
| Eric X. Heine | Vice President of Sales and Marketing for North America and Asia |
| Wolfram Ridder | Vice President of Business Development |
| Brian Merwin | Vice President Strategic Initiatives |
| Genevieve Stannus | Treasurer |

Niklaus Gruenenfelder Managing Director of Stendal

ITEM 5. PRINCIPAL OWNERS OF VOTING SECURITIES.

The following sets forth information as to each person owning 10 percent or more of the voting securities of the Company as of the date of this Application.

| Name and Complete | Title of Class | Amount Owned | Percentage of Voting |
|---------------------------------|-----------------------|---------------------|--|
| Mailing Address | Owned | | Securities Owned ⁽³⁾ |
| Peter R. Kellogg ⁽¹⁾ | Common Stock | 8,046,394 | 22.1% |

*120 Broadway, 6th Floor
New York, NY 10271*

Platinum Investment
Management Ltd. ⁽²⁾

Common Stock

5,669,847

15.6%

*Level 4, 55 Harrington Street
Sydney, NSW 2000, Australia*

(1) Information
based on Form 4
filed, jointly
with IAT
Reinsurance Co
Ltd., with the
SEC on
September 29,
2008.

Table of Contents

- (2) Information based on Schedule 13G filed with the SEC on February 11, 2009.
- (3) Based on 36,443,487 shares of Common Stock outstanding as at the date of this Application.

UNDERWRITERS

ITEM 6. UNDERWRITERS.

- (a) No person acted as an underwriter for the Company's securities within the past three years.
- (b) No person is acting as an underwriter of the New Notes proposed to be offered pursuant to the Indenture.

CAPITAL SECURITIES

ITEM 7. CAPITALIZATION.

- (a) Set forth below is certain information as to each authorized class of securities of the Company as of the date of this Application.

| Title of Class | Amount Authorized | Amount Outstanding |
|---|----------------------------------|--------------------------------|
| Common Stock, par value \$1.00 | 200,000,000 shares | 36,443,487 shares |
| Preferred Stock, par value \$1.00 | 50,000,000 shares ⁽¹⁾ | None |
| 8.5% Convertible Senior Subordinated Notes due 2010 | \$82,500,000 principal amount | \$67,255,000 principal amount |
| 9.25% Senior Notes due 2013 | \$310,000,000 principal amount | \$310,000,000 principal amount |

(1) Includes 2,000,000 shares designed as Series A Preferred Stock and reserved for future issuance.

- (b) Holders of Mercer's Common Stock are entitled to one vote per

share of
Common Stock
on all matters on
which holders
of Common
Stock are
entitled to vote.
Holders of
Mercer's
Common Stock
are entitled to
receive notice of
and attend all
meetings of the
shareholders of
Mercer.

INDENTURE SECURITIES

ITEM 8. ANALYSIS OF INDENTURE PROVISIONS.

The New Notes will be issued under the Indenture to be entered into between the Company and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The following is a general description of certain provisions of the Indenture. The description is qualified in its entirety by reference to the form of Indenture filed as Exhibit T3G hereto and incorporated herein by reference. Capitalized terms used in this Item 8 and not defined herein have the meanings assigned to them in the Indenture.

(A) Events of Defaults; Withholding of Notice.

The following will be Events of Default under the Indenture:

- i. the Company's failure to pay principal or premium, if any, on any New Note when due, whether or not prohibited by the subordination provisions of the Indenture;
- ii. the Company's failure to pay any interest, including any additional interest, on any Note when due if such failure continues for 30 days, whether or not prohibited by the subordination provisions of the Indenture;
- iii. the Company's failure to perform any other agreement required of it in the Indenture if such failure continues for 60 days after notice is given in accordance with the Indenture;
- iv. the Company's failure to pay the purchase price of any New Note when due, whether or not prohibited by the subordination provisions of the Indenture;

Table of Contents

- v. the Company's failure to provide timely notice of a change in control if such failure continues for 30 days after such change of control;
- vi. if any indebtedness for money borrowed by the Company or one of its Significant Subsidiaries (all or substantially all of the outstanding voting securities of which are owned, directly, or indirectly, by the Company) in an aggregate outstanding principal amount in excess of \$10 million is not paid at final maturity or upon acceleration and such indebtedness is not discharged, or such acceleration is not cured or rescinded, within 30 days after written notice as provided in the Indenture; and
- vii. certain events in bankruptcy, insolvency or reorganization of the Company or any of its significant subsidiaries. If an event of default, other than an event of default described in clause (vii) above with respect to the Company, occurs and is continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding New Notes may declare the principal amount of the New Notes to be due and payable immediately. If an event of default described in clause (vii) above occurs with respect to the Company, the principal amount of the New Notes will automatically become immediately due and payable. Any payment by the Company on the New Notes following any acceleration will be subject to the subordination provisions of the Indenture. After any such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the New Notes may, under certain circumstances, rescind and annul such acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived. Subject to the Trustee's duties in the case of an event of default, the Trustee will not be obligated to exercise any of its rights or powers at the request of the holders, unless the holders have offered to the Trustee reasonable indemnity. Subject to the Indenture, applicable law and the Trustee's indemnification, the holders of a majority in aggregate principal amount of the outstanding New Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the New Notes. No holder will have any right to institute any proceeding under the Indenture or for the appointment of a receiver or a trustee, or for any other remedy under the Indenture unless:
 - the holder has previously given the Trustee written notice of a continuing event of default;
 - the holders of at least 25% in aggregate principal amount of the New Notes then outstanding have made a written request and have offered reasonable indemnity to the Trustee to institute such proceeding as trustee; and
 - the Trustee has failed to institute such proceeding within 60 days after such notice, request and offer, and has not received from the holders of a majority in aggregate principal amount of the New Notes then outstanding a direction inconsistent with such request within 60 days after such notice, request and offer.However, the above limitations do not apply to a suit instituted by a holder for the enforcement of payment of the principal of or any premium or interest on any New Note on or after the applicable due date or the right to convert the note in accordance with the Indenture. Generally, the holders of not less than a majority of the aggregate principal amount of outstanding New Notes may waive any default or event of default unless:
 - the Company fails to pay principal, premium or interest on any New Note when due;
 - the Company fails to convert any New Note into shares of Common Stock in accordance with the provisions of the New Note and the Indenture; or

Table of Contents

the Company fails to comply with any of the provisions of the Indenture that would require the consent of the holder of each outstanding New Note affected.

(B) Authentication and Delivery of the Securities under the Indenture and Application of Proceeds Thereof.

The New Notes to be issued under the Indenture may be executed by manual or facsimile signature on behalf of the Company by the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer or any Vice President of the Company (individually, an Officer), and delivered to the Trustee.

The Trustee shall, from time to time upon receipt of a written order of the Company signed by two Officers, authenticate New Notes for original issue up to the aggregate principal amount stated in paragraph 4 of the New Notes. The aggregate principal amount of New Notes outstanding at any time may not exceed such amount except as provided in Section 2.07 of the Indenture.

There will be no proceeds from the issuance of the New Notes because the New Notes are being issued in exchange for the Old Notes.

(C) Release of any Note Collateral Subject to the Lien of the Indenture.

None. The New Notes are unsecured.

(D) Satisfaction and Discharge of the Indenture; Redemption of the Securities.

The Company may discharge its obligations under the Indenture while the New Notes remain outstanding if (1) all outstanding New Notes have or will become due and payable at their scheduled maturity within one year or (2) all outstanding New Notes are scheduled for redemption within one year, and, in either case, the Company has deposited with the Trustee or a paying agent an amount sufficient to pay and discharge all of the outstanding New Notes on the date of their scheduled maturity or the scheduled date of redemption, including interest provided, however, that the foregoing shall not discharge the Company's obligation to effect conversion, registration of transfer or exchange of securities in accordance with the terms of the Indenture.

i. Redemption at the option of the Company

The New Notes may not be redeemed at the Company's option prior to July 15, 2011. Thereafter the New Notes may be redeemed at the Company's option in whole, or in part, upon not less than 30 nor more than 60 days' notice by mail to holders of the New Notes at 100% of the principal amount of the New Notes together with (except as described above under Conversion below) accrued and unpaid interest, if any, up to, but not including, the redemption date. If fewer than all of the New Notes are to be redeemed, the Trustee will select the New Notes to be redeemed by lot, or in its discretion, on a pro rata basis. If any New Note is to be redeemed in part only, a replacement New Note in principal amount equal to the unredeemed principal portion will be issued. If a portion of a holder's New Notes is selected for partial redemption and a holder converts a portion of its New Notes, the converted portion will be deemed to be of the portion selected for redemption.

ii. Repurchase by the Company

If a Change in Control occurs, a holder of the New Notes will have the right to require the Company to purchase all or any part of their New Notes 30 business days after the occurrence of such change in control at a purchase price equal to 100% of the principal amount of the New Notes together with accrued and unpaid interest, if any, up to, but excluding, the purchase date. New Notes submitted for purchase must be in integral multiples of \$1000 principal amount. The Company is obligated to give notice, as provided in the Indenture, of the occurrence of a change in control to all holders of the New Notes within 10 business days after the occurrence of such change in control. To exercise the repurchase right, a holder of the New Notes must deliver to the paying agent, at any time prior to the close of business on the business day prior to the change in control purchase date, written notice of the exercise of such right. Such notice must specify the New Notes for which the purchase right is being exercised.

Table of Contents

The Company will not be required to purchase the New Notes upon a change in control if a third party makes an offer to purchase the New Notes in the manner, at the time and otherwise in compliance with the requirements set forth in the Indenture applicable to an offer to purchase upon a change in control made by the Company and purchases all the New Notes properly tendered and not withdrawn under such offer. In addition, the Company is not required to make an offer to purchase upon a change of control if a notice of redemption has been given pursuant to the optional redemption provisions of the New Notes.

The Company may not purchase any New Note at any time when the subordination provisions of the Indenture otherwise would prohibit the Company from making such repurchase. If the Company fails to repurchase the New Notes when required, this failure will constitute an event of default under the Indenture whether or not repurchase is permitted by the subordination provisions of the Indenture.

iii. **Conversion**

Subject to and in compliance with the provisions of the Indenture, a holder of the New Notes is entitled, at such holder's option, to convert any portion of the principal amount of a New Note that is an integral multiple of \$1000 into shares of Common Stock, unless previously repurchased or redeemed, at the conversion rate in effect at the time of conversion. The initial conversion rate is equal to 303 shares of Common Stock per \$1,000 principal amount of New Notes which is equivalent to a conversion price of approximately \$3.30.

The Company will not issue fractional shares of Common Stock upon conversion of New Notes but instead will pay cash for the fractional amount based upon the closing market price of the shares of Common Stock on the last trading day prior to the date of conversion.

(E) Evidence of Compliance with Conditions and Covenants.

The Company is required to furnish to the Trustee, on an annual basis, a statement by its officers as to whether or not the Company, to the officers' knowledge, is in default in the performance or observance of any of the terms, provisions and conditions of the Indenture, specifying any known defaults.

ITEM 9. OTHER OBLIGORS.

None.

CONTENTS OF APPLICATION FOR QUALIFICATION.

This application for qualification comprises:

- (a) Pages numbered 1 to 8, consecutively.
- (b) The statement of eligibility and qualification on Form T-1 of the Trustee under the Indenture to be qualified (included as Exhibit T3G hereto).
- (c) The following exhibits in addition to those filed as part of the Form T-1 statement of eligibility and qualification of the Trustee:

| | |
|---------------|--|
| Exhibit T3A | Articles of Incorporation of the Company, as amended. Incorporated by reference to Form 8-A dated March 1, 2006. |
| Exhibit T3B | Bylaws of the Company. Incorporated by reference to Form 8-A dated March 1, 2006. |
| Exhibit T3C* | Form of Indenture between the Company and Wells Fargo Bank, National Association, as Trustee. |
| Exhibit T3D.1 | Not applicable. |
| Exhibit T3E* | Form of Exchange Agreement. |

Table of Contents

Exhibit T3F Cross-reference sheet showing the location in the Indenture of the provisions inserted therein pursuant to Sections 310 through 318(a), inclusive, of the Trust Indenture Act of 1939. Included as part of Exhibit T3C herewith.

Exhibit T3G* Statement of eligibility and qualification of the Trustee on Form T-1.

* Filed herewith

Table of Contents

SIGNATURE

Pursuant to the requirements of the *Trust Indenture Act of 1939*, the applicant has duly caused this application to be signed on its behalf by the undersigned, thereunto duly authorized, and its seal to be hereunto affixed and attested, all in the City of Vancouver, Province of British Columbia, on this 25th day of November, 2009.

(SEAL)

MERCER INTERNATIONAL INC.

Attest: /s/ Genevieve
Stannus
Genevieve
Name: Stannus
Title: Treasurer

By: /s/ David M. Gandossi
Name: David M. Gandossi
Title: Chief Financial Officer

Table of Contents

EXHIBIT INDEX

| EXHIBIT | DESCRIPTION |
|----------------|--|
| Exhibit T3A | Articles of Incorporation of the Company, as amended. Incorporated by reference to Form 8-A dated March 1, 2006. |
| Exhibit T3B | Bylaws of the Company. Incorporated by reference to Form 8-A dated March 1, 2006. |
| Exhibit T3C* | Form of Indenture between the Company and Wells Fargo Bank, National Association, as Trustee. |
| Exhibit T3D.1 | Not applicable. |
| Exhibit T3E* | Form of Exchange Agreement. |
| Exhibit T3F | Cross-reference sheet showing the location in the Indenture of the provisions inserted therein pursuant to Sections 310 through 318(a), inclusive, of the Trust Indenture Act of 1939. Included as part of Exhibit T3C herewith. |
| Exhibit T3G* | Statement of eligibility and qualification of the Trustee on Form T-1. |