



June 10, 2008

To All Employees:

Given the importance of the legal ruling from Judge Schmidt on Friday, the related press and continuing developments, we are sending a second update on progress in the Pacific Lumber Company reorganization following Judge Schmidt's ruling Friday.

With the benefit of time to carefully review the Judge's ruling, we can state that Judge Schmidt made a very strong ruling in favor of the MRC / Marathon sponsored plan of reorganization. The decision was 119 pages long, and the Judge made many findings of fact that strongly support the MRC / Marathon plan (the ruling is on our website). In addition, Judge Schmidt denied the competing plan of reorganization put forth by the Scotia Pacific bondholders, and pointed out a number of substantive flaws with their plan.

Judge Schmidt's ruling required three "technical" changes to the MRC / Marathon plan. One of the three required changes has complicated a claim the bondholders made late in the confirmation trial. This new bondholder claim, if successful, could render our plan unworkable.

Yesterday many lawyers debated in court the appropriate path forward, as a result our best understanding of the sequence and timing of the next steps are as follows:

- June 30th – Judge Schmidt will review opposing arguments in regards to the new bondholder claim. His stated objective is to resolve this matter within a day and a half or less. A negative ruling at this juncture would likely block our plan from moving ahead.
- July 1st or July 2nd – Providing a positive result to the previous day's hearings, Judge Schmidt would immediately resume final stages of the confirmation hearings. The likely outcome at this time, or shortly thereafter, would be a court issued confirmation order...possibly containing a court ordered waiting period before we could officially complete the reorganization of Pacific Lumber.
- Post July 2nd or July 3rd – Again to the extent Judge Schmidt rules favorably on the bondholder claim issue, MRC and Marathon would move quickly to complete the court approved reorganization of Palco and begin implementation of our management plans;
 - Our reorganization plan is contingent upon approval to transfer the fee title to the forestlands from the United States Fish and Wildlife Service, the National Marine Fisheries Service and the California Department of Fish and Game. As soon as any court ordered waiting period has expired, and we have obtained the regulatory approvals from US F&WS, NMFS and CA DF&G, we would complete the reorganization (in a non-bankruptcy context, completing the reorganization is akin to a "closing").
 - During any court required waiting period, members of our management team will be in Scotia to work on the multitude of transition issues we have to work through; especially employment issues.

To All Employees

Page 2

June 10, 2008

The Scotia Pacific bondholders have already indicated that they intend to appeal Judge Schmidt if he issues a confirmation order in favor of MRC and Marathon. How an appeal will unfold is difficult to predict, but it could result in court ordered delays of anywhere from a few days to many months or even years. Obviously, if the bondholders ultimately accept a decision that favors MRC, we would be able to proceed with the business of formulating the new company right away.

To summarize, Friday's ruling was a very big and positive step forward for our efforts to reorganize Pacific Lumber and Scopac, and there remain hurdles left to clear. We know that the length and uncertainty of the process is particularly hard for many people in Humboldt County, and we will continue to make updates whenever we have significant news to share.

Sincerely,

Richard Higgenbottom
CEO
Mendocino Redwood Company, LLC

Sandy L. Dean
Chairman
Mendocino Redwood Company, LLC

/lg