



July 10, 2008

To All Employees:

On Monday, following a three day trial in Corpus Christy, Texas last week, Federal Bankruptcy Judge Richard Schmidt ruled on the claim that had been asserted by the Scotia Pacific noteholders that could have stopped our plan of reorganization for Pacific Lumber Company. The Judge ruled that if we increased our minimum payment to the bondholders by less than 1%, the claim would be dismissed. Judge Schmidt also addressed a series of allegations that were made by the Scotia Pacific noteholders last week, and he stated for the record that he believed we have acted in good faith throughout this process.

Two hearings were conducted Tuesday in Texas, and at the end of the day Judge Schmidt signed his formal Confirmation Order. In effect, Judge Schmidt has given our plan of reorganization for Pacific Lumber Company the green light, subject to allowing a limited amount of time for the Scotia Pacific noteholders to seek a Stay of our plan from a higher court so the noteholders can have time to pursue a lengthy appeal (this is referred to by the lawyers as a Stay Pending Appeal). It is difficult to predict what will happen from here in the appeal process; however, we remain hopeful the process will continue in our favor and move along quickly.

We are very pleased with Judge Schmidt's ruling, and hope that it will be allowed to stand with no or minimal further litigation. After almost 18 months of bankruptcy proceedings, we are certain that the employees of Pacific Lumber Company and Scotia Pacific, and the people of Humboldt County are all eager to move ahead. We will be running an advertisement in the Humboldt County papers in the next few days to allow people to express their support for moving forward with our plan.

The next two weeks will be filled with a flurry of activities as we will continue transition planning at an accelerated pace based on Judge Schmidt's ruling. We have already had constructive transition conversations with senior management of Palco and Scotia Pacific. Next week, HRC management will initiate Employee Opportunity Meetings for all interested current employees. This process will provide a forum for each individual to state their current position, work history, qualifications, and express their job preference or request. They will meet with the appropriate manager and representative of Human Resources. Employment offers for a few key positions could come quickly; however, the bulk of new positions will be filled soon after close. The process of extending job offers by position, sharing benefit and wage information, completing standard employment testing, and going through employee orientation for a large number of folks will be challenging. However, we have good plans in place to accomplish this orderly and as quickly as possible.

Consistent with our prior public statements, we will begin to make changes in the woods as soon as the reorganization is complete, and begin the process of fully implementing the MRC forestry practices and seeking FSC certification. Within 30 days after the reorganization has been completed, we will update folks on our best estimates of timing to make changes to the Scotia sawmill, and on our progress in implementing changes in the woods. A series of Town Hall Meetings will be held at preset times and places. This will allow the general public a forum to talk directly to our management, learn what progress is being made, and ask questions. Of course, the new employees of HRC will have regular "tailgate", team, and "State of the Business" meetings just like the current and early days of MRC.

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We have all come to learn together that the bankruptcy process can take more time than might be expected. Tuesday's ruling was a big step forward and we hope to continue to move ahead quickly. Once again, we thank each of you for your role in making MRC a company that is strong enough to grow. We will update you as we have more news. Many of you probably know this, but we are doing our best to keep all news articles that come out on the bankruptcy process posted on [www.mrc.com](http://www.mrc.com) and also on the newly formulated [www.hrllc.com](http://www.hrllc.com) website.

Sincerely,

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Mendocino Redwood Company, LLC

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