



Saturday, August 02, 2008

Post Immediately

To All Employees:

It is with great pleasure that we send this update to you. On Wednesday July 30th, we implemented our bankruptcy court approved Plan of Reorganization for Pacific Lumber Company and Scotia Pacific. It's done; the money has been transferred to the largest creditors (or in the case of unsecured creditors to the Official Committee of Unsecured Creditors, which will work to make distributions as soon as they can sort through all the various claims) and the title to the timberlands has been recorded in the name of Humboldt Redwood Company, LLC.

We have assumed operating control of the sawmill and the forest. We are hiring close to 250 employees for Humboldt Redwood Company, and reviewing THP's to determine how to make changes that will reflect our forest policies as quickly as possible. Consistent with our business plan that we made available in February of this year, we want to position the sawmill in Scotia for success for the long-term, and to bring the forestry practices of Mendocino Redwood Company to the former Palco lands. We will move as quickly as we can to take all actions to move Humboldt Redwood Company towards these goals. We expect to complete the hiring process and resume operations in the sawmill and the forest in the coming week.

At least as of now, the Scotia Pacific noteholders have an appeal of Judge Schmidt's various rulings underway in the Fifth Circuit Court of Appeals. The appeal will be briefed by the various parties between late August and September 15th, and presumably heard some time after that. We believe Judge Schmidt made careful and well reasoned rulings, and hope the appeal will be quickly resolved.

For reasons outside of our control, we were prevented from meeting with existing Pacific Lumber Company and Scotia Pacific employees until July 21st when we conducted Employment Opportunity Meetings. As a result, even as we raced to determine all the specific people needs of Humboldt Redwood Company, the process of extending job offers to candidates left former employees with uncertainty from Wednesday of this week until in some cases into early next week. We have done our best to limit the period of uncertainty and we apologize to all the former employees who have had to wait for the employment offer process to be completed.

We believe for many people this week was marked by a fair amount of emotion. Sadness for the end of a company with a long and important history in Humboldt County, anxiousness over employment, poignant reminders of what makes Scotia such a special community, hope for the future, and optimism for a new beginning. Scotia is intertwined with the success of its related timber business. We believe that Humboldt Redwood Company is well positioned for a long and successful future, and we hope that we will be able to do our part in preserving the community in Scotia through the success of Humboldt Redwood Company.

There is obviously much hard work ahead. We had more than 20 of our own people in Scotia for the last two weeks working on transition issues, and will probably have a similar number for the next week or more. Eventually of course we expect just a handful of senior managers to make a permanent move to Humboldt County, but we also expect there will be a lot of interaction between the two businesses. Thank you to all who mind the store while this transition process is underway.

Being with so many people who care deeply about the success of the newly formed Humboldt Redwood Company this week, it is reassuring to be able to share the success that all of you have achieved in the Mendocino Companies. Our thanks once again to each of you for your efforts and results that allowed us to start this new and important chapter in the redwood forest business.

We both look forward to seeing as many of you as possible next Sunday, August 10th at the Ukiah Fairgrounds for the *Ten Year Celebration* of the formation of the Mendocino Companies!

Sincerely,

Richard Higgenbottom
CEO

Sandy Dean
Chairman