

July 23, 2008

Post Immediately

Letter to Palco and Scopac Employees:

Subject to the MRC / Marathon plan of reorganization becoming “Effective,” (and the date that the MRC/Marathon plan of reorganization is completed is referred to as the “Effective Date”)

MRC, Marathon and Palco are cooperating to work through certain employee transition issues. One of the most important is getting all employees final payroll checks from Palco and Scopac. Please note, everyone will receive their normal two week paycheck this Friday, July 25th, with the final check to follow.

As soon as possible, but not greater than one week following the Effective Date of the MRC / Marathon plan, Palco and Scopac will issue final paychecks to all current Palco and Scopac employees. While these final paychecks may be funded by a mix of Palco, Scopac, Humboldt Redwood Company (HRC), and Marathon, they will be issued by Palco and Scopac in an effort to get all current employees their final Palco/Scopac paychecks as quickly as possible.

The final paychecks will include:

- All regularly earned wages thru the Effective Date
- Any earned but unpaid incentive monies (the non-officer retention bonuses put in place and approved by the Bankruptcy Court in 2007)
- Accrued vacation thru the Effective Date

Additionally:

- The majority of Offers of Employment to current Palco/Scopac employees by HRC are expected to be extended during the first week after the Effective Date. In an effort to assure continuity of employment and earnings for as many future HRC employees as possible; all Palco/Scopac employees who begin actively working for HRC within the first two weeks following the Effective Date of the MRC/Marathon plan of reorganization will begin earning their wages the first full day after the Effective Date. The schedule for regular payroll dates for HRC will be established soon after the Effective Date.
- Town of Scotia Company, LLC (Town and Power Plant Operations) is also working toward Offers of Employment for delivery as soon as possible. It is anticipated that offers to potential employees of Townco will be provided prior to the Effective Date. Offers will be communicated in writing. In an effort to assure continuity of employment and earnings for as many future employees as possible; all Palco/Scopac.

- Employees who begin actively working within the first two weeks following the Effective Date of the MRC/Marathon plan of reorganization will begin earning their wages the first full day after the Effective Date. The regular payroll cycle will be established and communicated soon after the Effective Date. Marathon is also working to finalize employee benefits.
- As a convenience to all former Palco and Scopac employees, COBRA health insurance coverage will be available for purchase to those individuals who are either not offered employment with HRC or the Town of Scotia or who choose not to accept employment with HRC or the Town of Scotia. Former Palco and Scopac employees previously enrolled on the Palco/Scopac COBRA plans will be transitioned to HRC COBRA for the remaining term of their eligibility.

The COBRA coverage that will be provided through the new HRC medical plan will offer lower out-of-pocket maximums and deductible limits than the former Palco/Scopac plans. COBRA premiums under the new HRC plan are approximately \$40 - \$50 less per month for employees with 1 dependent or less. Premiums for employees with 2 or more dependents are \$20 - \$40 higher per month. When the difference in premiums, deductible limits, and out-of-pocket maximums are considered together, we think HRC COBRA plan is an improvement over the existing Palco COBRA plan for participants.

We will continue to work to provide additional transition information as soon as it is available.

Sincerely,

George O'Brien,
President, CEO
Pacific Lumber

Joan Kramer,
Managing Director
Marathon Asset Management

Richard Higgenbottom,
CEO
HRC, MRC