

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
CORPUS CHRISTI DIVISION**

**IN RE:** § **JOINTLY ADMINISTERED**  
§  
**SCOTIA DEVELOPMENT LLC, ET** § **Case No. 07-20027-C-11**  
**AL,** §  
§ **Chapter 11**  
§  
**Debtors.** §

**STATE OF CALIFORNIA’S POSITION BY GOVERNOR ARNOLD  
SCHWARZENEGGER IN SUPPORT OF MRC/MARATHON PLAN OF  
REORGANIZATION**

The State of California, by Governor Arnold Schwarzenegger, hereby submits its Statement of Support for the First Amended Joint Plan of Reorganization Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P., a copy of which is attached hereto.

Dated: April 4, 2008

Respectfully submitted,

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GOVERNOR ARNOLD SCHWARZENEGGER

**California's Statement of Support for First Amended Joint Plan of Reorganization  
Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance  
Fund L.P.**

To All Parties in Interest and the Court:

As Governor of the State of California, I am submitting this Statement of Support for the First Amended Joint Plan of Reorganization proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P. ("MRC/Marathon Plan") based on the five principles set forth in my Statement of Position dated January 29, 2008.

California's majestic redwood forests are among its most precious natural assets. Historian Kevin Starr once said that the redwood tree could "almost stand alone as a symbol of California found and lost, lost and found."

My administration, through the California Resources Agency, the California Environmental Protection Agency and their boards and departments, has been active in the Pacific Lumber Company bankruptcy case. We have an unwavering obligation to protect the environment and the state's valuable natural resources. For the people of California and as a matter of public trust, we have a significant commitment to safeguard the nearly \$500 million investment that California and the federal government made in connection with the historic 1996 Headwaters Forest Agreement. The United States and the people of California have a vested interest in a successful reorganization of a Pacific Lumber Company that will result in sound management practices for the future of these lands.

In my original Statement of Position, I indicated our strong position that any reorganization of Pacific Lumber Company preserves the state and federal governments' interest in Pacific Lumber's timberlands and adheres to the following principles:

1. Manage the timberlands in accordance with state and federal laws, including but not limited to the existing regulatory permits and authorizations such as the Headwaters Forest Agreement and the Habitat Conservation Plan and all other state permits, AB 1986 (Chapter 615 of statutes of 1998), the Agreement Relating to Enforcement of AB 1986 and the conditions, covenants and restrictions recorded in accordance with AB 1986.
2. Manage the timberlands in a manner that complies with all required regulatory permits and other authorizations in coordination with state and federal regulatory agencies.
3. Preserve the timberlands by maintaining a level of commercial harvest that will ensure sustainable, high-quality timber production over the long term while preserving and enhancing watershed and wildlife protection.

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4. Minimize adverse impacts to the local economy and preserve as many local employment opportunities as possible.
5. Maximize the greenhouse gas reduction benefits that could be generated in timberland management.

After meeting with each of the plan proponents, we appreciate that each plan proponent has attempted to address the principles above. We believe that the MRC/Marathon Plan best preserves the state and federal governments' interests in Pacific Lumber's timberlands, and that it also best satisfies all five principles set forth in my January statement.

The MRC/Marathon Plan best satisfies the first and second principles – compliance with federal and state laws, permits and agreements – because it makes concrete pledges to abide by all environmental laws, existing permits and agreements. In addition, the MRC/Marathon Plan would uphold and maintain the Pacific Lumber Company Habitat Conservation Plan (“HCP”) and other environmental obligations. Moreover, it demonstrates unequivocal commitment to environmental protection by promising to obtain Forest Stewardship Counsel certification. Furthermore, the MRC/Marathon Plan would best satisfy the extensive regulations for forests in California. Because of their history, the Pacific Lumber timberlands are highly regulated, and the MRC track record of success in Mendocino County provides confidence that MRC will comply with the extensive regulations and satisfy the many agencies and regulators involved in those lands.

The MRC/Marathon Plan best satisfies the third principle – maintaining sustainable, high-quality timber production while enhancing watershed and wildlife protection – because the plan would keep the timberlands as working timberlands under one owner that has a proven, favorable track record for sustainable timberland management. The MRC/Marathon Plan is based on appropriate projected timber harvest levels that meet the critical goal of long term sustainable forest management. The projected commercial harvest levels in the MRC/Marathon Plan have the best chance of ensuring sustainable, high-quality timber production over the long term. Watershed and wildlife protection is enhanced by MRC/Marathon's commitment to uphold and maintain the HCP and other environmental obligations and the commitment to obtain Forest Stewardship Counsel certification.

The MRC/Marathon Plan best satisfies the fourth principle – minimizing adverse impacts on the local economy and jobs – because the plan would proceed under the stewardship of a viable, proven timber company that will keep the local mill operating on a long term basis, and maintain most of the local timber-related jobs and pensions in the long term. Critically, the MRC/Marathon Plan is the only plan that commits to make a significant financial investment to upgrade and make the mill more efficient and competitive. As such, the MRC/Marathon Plan has strong local support as evidenced by the Mendocino County Board of Supervisors resolution supporting the plan and the overwhelming support of unsecured creditors.

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In addition, the MRC/Marathon Plan best satisfies the fifth principle – maximizing greenhouse gas reduction benefits – because the plan would engage in long-term, sustainable timberland management that would reduce projected harvest levels to ensure long-term sustainability, which will retain the timberlands as working timberlands and assure their environmentally sound management. The MRC/Marathon group has represented that it will implement the same exemplary forestry management practices on the Debtors' timberlands that MRC has successfully implemented on its timberlands in Mendocino County. This is critical to successful implementation of California's landmark climate change law and commitment to capping and reducing carbon emissions. One of the best ways for California to achieve its climate change goals is to successfully maintain the forests as viable commercial enterprises. A business plan that is built on a rate of harvest that is below the growth rate of the forest not only maintains a large stock of stored carbon, it sequesters additional carbon to benefit all of us as we seek ways to reduce the carbon footprint of California. The MRC/Marathon Plan is built around maintaining the existing forest as commercial forestlands over the long term, adding to the carbon stored in the forest each and every year by harvesting less than growth. The commitment to sustainable forestry management embodied in the MRC/Marathon Plan enhances the value of the asset over the long term.

Our recommendation addresses the five important public interest principles from my earlier statement. I understand that the Bankruptcy Court must decide whether the MRC/Marathon Plan meets the other confirmation requirements of the Bankruptcy Code. For example, in considering the question of asset value, we urge the Court to consider the value of long-term, sustainable management practices. The MRC/Marathon Plan offers the best opportunity by far to advance and protect both the economic and environmental value of these assets over the long term. While it may be possible for an operator to harvest at elevated rates from a given forest for a short period of time, unsustainable forestry practices will devalue the large stock of remaining trees, degrade water quality in streams and tributaries and impair vital habitat for salmon and endangered species – all of which result in detrimental economic impact. Sustainable forestry, harvesting trees at a rate that can be maintained or grown over many decades in a way that keeps or improves the ecological values of the forest, is essential to maximize the long-term value of the forest.

We believe that the MRC/Marathon Plan, subject to the resolution of any remaining bankruptcy-specific issues raised by the California State Agencies, appears to offer the best chance for a reorganized company that is positioned for long-term success, while at the same time enhancing the environment and protecting the local economy. We urge the Court to confirm that plan. We appreciate the Court's consideration of our position, as this is an issue of paramount importance to all Californians.

Sincerely,



Arnold Schwarzenegger

**CERTIFICATE OF SERVICE**

I, Karen L. Widder, declare:

I am a resident of the State of California and over the age of eighteen years, and not a party to the within action. I am an employee of Felderstein Fitzgerald Willoughby & Pascuzzi LLP and my business address is 400 Capitol Mall, Suite 1450, Sacramento, CA 95814-4434.

On April 4, 2008, I served the foregoing:

**STATE OF CALIFORNIA'S POSITION BY GOVERNOR ARNOLD  
SCHWARZENEGGER IN SUPPORT OF MRC/MARATHON PLAN OF  
REORGANIZATION**

(By Electronic Mail) I caused to be transmitted the above described document(s) via electronic mail to the electronic addresses as indicated on the attached list.

I declare under penalty of perjury, under the laws of the State of California and the United States of America that the foregoing is true and correct.

Executed on April 4, 2008, at Sacramento, California.

/s/ Karen L. Widder  
Karen L. Widder, Legal Assistant

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