

EXHIBIT C-1

**SECOND AMENDED JOINT PLAN OF REORGANIZATION FOR THE
DEBTORS PROPOSED BY THE DEBTORS AND MAXXAM ENTITIES**

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

<p>IN RE:</p> <p>SCOTIA DEVELOPMENT LLC, THE PACIFIC LUMBER COMPANY, BRITT LUMBER CO., INC., SALMON CREEK LLC, SCOTIA INN INC., and SCOTIA PACIFIC COMPANY LLC,</p> <p style="text-align: center;">DEBTORS.</p>	<p>Chapter 11 Case Nos. 07-20027 through 07-20032 (Jointly Administered)</p>
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**PLAN PROPONENTS' SECOND AMENDED JOINT PLAN OF REORGANIZATION
FOR THE DEBTORS UNDER CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE**

<p>BAKER BOTTS L.L.P. Jack L. Kinzie State Bar No. 11492130 James R. Prince State Bar No. 00784791 C. Luckey McDowell State Bar No. 24034565 2001 Ross Avenue Dallas, Texas 75201-2980 Telephone: 214.953.6500 Facsimile: 214.661.6503 Email: <i>jack.kinzie@bakerbotts.com</i> <i>jim.prince@bakerbotts.com</i> <i>luckey.mcdowell@bakerbotts.com</i></p> <p>and</p>	<p>JORDAN, HYDEN, WOMBLE CULBRETH & HOLZER, P.C. Shelby A. Jordan State Bar No. 11016700 Harlin C. Womble State Bar No. 21880300 Nathaniel Peter Holzer State Bar No. 00793971 Suite 900, Bank of America 500 North Shoreline Corpus Christi, Texas 78471 Telephone: 361.884.5678 Facsimile: 361.888.5555 Email: <i>sjordan@jhwclaw.com</i> <i>hwomble@jhwclaw.com</i> <i>pholzer@jhwclaw.com</i></p> <p>COUNSEL TO THE PACIFIC LUMBER COMPANY, SCOTIA DEVELOPMENT LLC, BRITT LUMBER Co., INC., SALMON CREEK LLC AND SCOTIA INN INC., AS DEBTORS-IN-POSSESSION</p>
<p>GIBSON, DUNN & CRUTCHER LLP Kathryn A. Coleman California State Bar No. 110937 Eric J. Fromme California State Bar No. 193517 200 Park Ave, 47th Floor New York, New York 10166-0193 Telephone: 212.351.4000 Facsimile: 212.351.4035 Email: <i>kcoleman@gibsondunn.com</i> <i>efromme@gibsondunn.com</i></p> <p>and</p>	<p>DIAMOND MCCARTHY LLP Kyung S. Lee Texas Bar No. 12128400 Wendy K. Laubach Texas Bar No. 11987800 909 Fannin, Suite 1500 Houston, Texas 77002 Telephone: 713.333.5100 Facsimile: 713.333.5195 Email: <i>klee@diamondmccarthy.com</i> <i>wlaubach@diamondmccarthy.com</i></p> <p>COUNSEL FOR SCOTIA PACIFIC COMPANY LLC</p>

WHITE & CASE LLP

Alan Gover
Texas Bar No. 08235700
Roberto Kampfner
California Bar No. 179026
1155 Avenue of the Americas
New York, New York 10036-2787
Telephone: 212.819.8200
Facsimile: 212.354.8113
Email: *agover@whitecase.com*
rkampfner@whitecase.com

and

ANDREWS KURTH LLP

Jeffrey Spiers
Texas Bar No. 18933950
Basil Umari
Texas Bar No. 24028174
600 Travis
Suite 4200
Houston, Texas 77002
Telephone: 713.220.4200
Facsimile: 713.220.4285
Email: *jspiers@andrewskurth.com*
bumari@andrewskurth.com

**COUNSEL TO MAXXAM INC., MAXXAM GROUP
HOLDINGS INC., AND MAXXAM GROUP INC.**

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INTRODUCTION

Scotia Development LLC, The Pacific Lumber Company, Britt Lumber Co., Inc, Salmon Creek LLC, Scotia Inn Inc. and Scotia Pacific Company LLC, as debtors and debtors in possession, together with MAXXAM, MGI, and MAXXAM Group Holdings Inc., respectfully propose the following Second Amended Joint Plan of Reorganization pursuant to section 1121(a) of title 11 of the United States Code for the resolution of outstanding Claims against and Interests in each of the Debtors.

Reference is made to the Disclosure Statement with respect to this Joint Plan, distributed contemporaneously herewith, for a discussion of the Debtors' history, businesses, properties, operations, risk factors, a summary and analysis of this Joint Plan and certain related matters including the securities to be issued under this Joint Plan. Subject to certain restrictions and requirements set forth in section 1127 of the Bankruptcy Code and Fed. R. Bankr. P. 3019, the Plan Proponents respectfully reserve the right to alter, amend, modify, revoke or withdraw this Joint Plan prior to consummation of this Joint Plan.

NO SOLICITATION MATERIALS, OTHER THAN THE DISCLOSURE STATEMENT AND RELATED MATERIALS TRANSMITTED THEREWITH AND APPROVED BY THE BANKRUPTCY COURT, HAVE BEEN AUTHORIZED BY THE BANKRUPTCY COURT FOR USE IN SOLICITING ACCEPTANCE OR REJECTION OF THIS JOINT PLAN.

I.

DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME

1.1. **Definitions.** As used in this Joint Plan, capitalized terms not otherwise defined herein shall have the meanings specified in Appendix A, submitted contemporaneously herewith. Unless the context otherwise requires, any capitalized term used and not defined in this Joint Plan, but that is defined in the Bankruptcy Code, shall have the meaning assigned to that term in the Bankruptcy Code. Unless otherwise specified, all section, schedule or exhibit references in this Joint Plan are to the respective section in, article of, or schedule or exhibit to, this Joint Plan, as the same may be amended, waived or modified from time to time.

1.2. **Rules of Construction.** For purposes of this Joint Plan, unless otherwise provided herein: (a) any reference in this Joint Plan to a contract, instrument, release, indenture or other agreement, whether existing or contemplated, or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions, (b) unless otherwise specified, all references in this Joint Plan to the Introduction, Articles and Sections are references to the Introduction, Articles and Sections of or to this Joint Plan, (c) captions and headings to Articles and Sections are intended for convenience of reference only and are not intended to be part of or to affect interpretation of this Joint Plan, (d) the words "herein," "hereof," "hereunder," "hereto" and other words of similar import refer to this Joint Plan in its entirety rather than to a particular portion of this Joint Plan, (e) whenever it appears appropriate from the context, each pronoun stated in the masculine, feminine or neuter includes the masculine, feminine and neuter, and (f) the rules of construction set forth in section 102 of the Bankruptcy Code and in the Bankruptcy Rules shall apply.

1.3. **Computation of Time.** In computing time prescribed or allowed by this Joint Plan, unless otherwise expressly provided, Fed. R. Bankr. P. 9006(a) shall apply.

II.

TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS, PRIORITY TAX CLAIMS AND PROFESSIONAL COMPENSATION CLAIMS AGAINST THE DEBTORS

2.1. **Administrative Expense Claims.** On the later of (i) the Effective Date or (ii) the date on which an Administrative Expense Claim becomes Allowed, Reorganized Palco or Reorganized Scopac, as the case may be, shall either (x) pay to each Holder of an Allowed Administrative Expense Claim, in Cash, the full amount of such Allowed Administrative Expense Claim, or (y) satisfy and discharge such Administrative Expense Claim in accordance with such other terms that such Reorganized Debtor and such Holder shall have agreed upon in writing;

provided, however, that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (x).

2.2. ***Bar Date for Filing Administrative Expense Claims.*** The Holder of an Administrative Expense Claim (other than an Administrative Expense Claim described in Article 2.3. or an Administrative Expense Claim arising from the DIP Facility) shall file with the Bankruptcy Court and serve on the appropriate Debtor a request for payment of such Claim no later than the Administrative Expense Claims Bar Date. Such request shall be by motion and shall include at a minimum (a) the name of the Debtor(s) purported to be liable for the Administrative Expense Claim, (b) the name of the Holder of the Administrative Expense Claim, (c) the amount of the Administrative Expense Claim and (d) the basis for the Administrative Expense Claim. **Failure to file and serve such request timely and properly shall result in the Administrative Expense Claim being forever barred and discharged.** Unless Reorganized Palco or Reorganized Scopac objects to an Administrative Expense Claim within thirty (30) days after the Administrative Expense Claims Bar Date, such Administrative Expense Claim shall be deemed to be Allowed in the amount requested. In the event that Reorganized Palco or Reorganized Scopac objects to an Administrative Expense Claim, the Bankruptcy Court shall determine the Allowed amount of such Administrative Expense Claim. Notwithstanding the foregoing, no request for payment of an Administrative Expense Claim need be filed with respect to an Administrative Expense Claim which is paid or payable by a Debtor in the ordinary course of its business and is not past due.

2.3. ***Professional Compensation Claims.*** Notwithstanding any other provision of this Joint Plan dealing with Administrative Expense Claims, any Person seeking a Professional Compensation Claim shall, no later than sixty (60) days after the Effective Date, file a final application for allowance of compensation for services rendered and reimbursement of expenses incurred through the Effective Date. To the extent that such an award is granted by the Bankruptcy Court, the requesting Person shall receive, (a) payment of Cash in an amount equal to the amount Allowed by the Bankruptcy Court less all interim compensation paid to such Professional during the Reorganization Cases, such payment to be made within thirty (30) days after the Order granting such Person's final fee application becoming a Final Order, (b) payment on such other terms as may be mutually agreed upon by the Holder of the Professional Compensation Claim and the respective Debtor (but in no event shall the payment exceed the amount Allowed by the Bankruptcy Court), or (c) payment in accordance with the terms of any applicable administrative procedures orders entered by the Bankruptcy Court, including the Interim Compensation Order, dated January 19, 2007. All Professional Fees for services rendered after the Effective Date, including those relating to the prosecution of Causes of Action preserved hereunder and the resolution of Disputed Claims, shall be paid by Reorganized Palco or Reorganized Scopac, as the case may be, upon receipt of an invoice therefore, or on such other terms as the Professional and Reorganized Palco or Reorganized Scopac, as the case may be, may agree to, without the requirement of a further Bankruptcy Court order.

2.4. ***Priority Tax Claims.*** Each Holder of an Allowed Priority Tax Claim against a Debtor shall receive payment on the Distribution Date of Cash in an amount equal to the unpaid portion of such Allowed Priority Tax Claim.

2.5. ***Pension Claims.*** Upon Confirmation and consummation of this Joint Plan, Reorganized Palco shall continue to pay its obligations under the Palco Pension Plan in accordance with applicable law with respect to continued funding of such plans. Nothing in this Joint Plan shall be deemed to discharge, release or relieve the Debtors, or the Reorganized Debtors, of or from any current or future liability under applicable law with respect to the Palco Pension Plan. Any and all obligations to participants under the Palco Pension Plan shall be paid in accordance with applicable law.

2.6. ***Worker's Compensation Programs.*** Upon Confirmation and consummation of this Joint Plan, Reorganized Palco or Reorganized Scopac, as the case may be, shall continue any pre-petition workers' compensation programs in accordance with applicable law, and the Debtors' obligations under applicable law with respect to continued funding of such programs shall remain unaltered. Nothing in this Joint Plan shall be deemed to discharge, release or relieve the Debtors or the Reorganized Debtors, of or from any current or future liability for their workers' compensation programs under applicable law. Any and all obligations under the pre-petition workers' compensation programs shall be paid in accordance with applicable law. The Debtors (and Reorganized Palco or Reorganized Scopac, as the case may be, upon Confirmation and consummation of this Joint Plan) shall be

responsible for all valid claims for benefits and liabilities under the workers' compensation programs regardless of when the actual injuries occurred.

2.7. ***Incentive Plans.*** Upon Confirmation and consummation, the Reorganized Debtors shall continue any incentive plans proposed in the Reorganization Cases and approved by the Bankruptcy Court in accordance with the terms of such plans.

2.8. ***DIP Facility.*** Notwithstanding any other provision of this Joint Plan dealing with Administrative Expense Claims, Marathon shall receive, in full satisfaction, release, and discharge of all Administrative Expense Claims arising under the DIP Facility, 45.7% of the issued and outstanding common stock of Reorganized Palco.

2.9. ***Treatment of Environmental Obligations.*** Notwithstanding any provision in the Plan, as amended from time to time, the Debtors and Reorganized Debtors, as the case may be, shall comply, complete, perform, satisfy, and/or provide for satisfaction of any prepetition, current, ongoing, executory, and future Environmental Obligations.

Each Environmental Obligation shall be satisfied in full in the ordinary course of Reorganized Palco's or Reorganized Scopac's business, as the case may be, at such time and in such manner as Reorganized Palco or Reorganized Scopac, as the case may be, is obligated to satisfy such Environmental Obligation under applicable non-bankruptcy law.

Each Environmental Obligation shall survive the Effective Date of the Plan as if the Reorganization Cases had not been commenced, shall not be discharged under section 1141(d), shall not otherwise be adversely affected by the Reorganization Cases. Moreover, the Agreement Relating to Enforcement of AB 1986, including all restrictions and obligations set forth in Section 3.1 therein, are and shall remain recorded as valid covenants, conditions and restrictions (CC&Rs) which run with the land and remain binding on successors and assigns, and shall be senior in priority to all Liens provided in the Plan as to the land on which the CC&Rs affect.

2.10. ***Treatment of Post-Petition Tax Claims.*** Any Tax Claim against any of the Palco Debtors that first arose on or after the Petition Date, shall be timely paid by Reorganized Palco in the ordinary course of its business or shall be subject to applicable state-court or federal-court, as the case may be, collection efforts without further recourse to the Bankruptcy Court. Any Tax Claim against Scopac that first arose on or after the Petition Date, shall be timely paid by Reorganized Scopac in the ordinary course of its business or shall be subject to applicable state-court or federal-court, as the case may be, collection efforts without further recourse to the Bankruptcy Court.

III.

CLASSIFICATION OF CLAIMS AGAINST AND INTERESTS IN DEBTORS

3.1. ***Classification of Claims.*** Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of Classes of Claims against and Interests in the Debtors. A Claim or Interest is placed in a particular Class for the purposes of voting on this Joint Plan and of receiving Distributions pursuant to this Joint Plan only to the extent that such Claim or Interest is an Allowed Claim or Allowed Interest in that Class and such Claim or Interest has not been paid, released, withdrawn, or otherwise settled prior to the Effective Date. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims of the kinds specified in sections 507(a)(2) and 507(a)(8), respectively, of the Bankruptcy Code have not been classified and their treatment is set forth in Article II. Additionally, claims arising under the Debtors' pre-petition pension and workers' compensation plans and programs have not been classified and their treatment has been set forth in Article II.

This Joint Plan constitutes a separate chapter 11 plan of reorganization for Scopac. This Joint Plan also constitutes a single chapter 11 plan of reorganization for the Palco Debtors, which shall be substantively consolidated for the purposes of voting, Distribution and Plan Confirmation. In the event that the Bankruptcy Court does not authorize substantive consolidation, this Joint Plan shall constitute a separate plan of reorganization for

each of the Palco Debtors. Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of Classes of Claims against and Interests in the Debtors.

3.2. **Classes.**

3.2.1. The Claims against and Interests in the **Palco Debtors** are classified as follows:

- 3.2.1.1. **Palco Class 1:** Palco Other Priority Claims.
- 3.2.1.2. **Palco Class 2:** Palco Secured Tax Claims.
- 3.2.1.3. **Palco Class 3:** Palco Term Loan Claims.
- 3.2.1.4. **Palco Class 4:** Palco General Unsecured Claims.
- 3.2.1.5. **Palco Class 5:** Palco Inter-Debtor Claims.
- 3.2.1.6. **Palco Class 6:** Scopac Claims.
- 3.2.1.7. **Palco Class 7:** Palco Non-Debtor Affiliate Claims.
- 3.2.1.8. **Palco Class 8:** Palco Convenience Class Claims.
- 3.2.1.9. **Palco Class 9:** Palco Debtors Interests.

3.2.2. The Claims against and Interests in **Scopac** are classified as follows:

- 3.2.2.1. **Scopac Class 1:** Scopac Other Priority Claims.
- 3.2.2.2. **Scopac Class 2:** Scopac Secured Tax Claims.
- 3.2.2.3. **Scopac Class 3:** Scopac Timber Noteholder Claims.
- 3.2.2.4. **Scopac Class 4:** Scopac Line of Credit Claims.
- 3.2.2.5. **Scopac Class 5:** Scopac General Unsecured Claims.
- 3.2.2.6. **Scopac Class 6:** Palco Debtor Claims.
- 3.2.2.7. **Scopac Class 7:** Scopac Non-Debtor Affiliate Claims.
- 3.2.2.8. **Scopac Class 8:** Scopac Convenience Class Claims.
- 3.2.2.9. **Scopac Class 9:** Scopac Interests.

IV.

PALCO DEBTORS: TREATMENT OF CLAIMS AND INTERESTS AND DESIGNATION WITH RESPECT TO IMPAIRMENT

4.1. **Treatment of Palco Class 1 – Palco Other Priority Claims.**

4.1.1. **Impairment and Voting.** Palco Class 1 is unimpaired by this Joint Plan. Each Holder of an Allowed Palco Other Priority Claim is conclusively presumed to have accepted this Joint Plan and is not entitled to vote to accept or reject this Joint Plan.

4.1.2. **Distributions.** On the Distribution Date, each Holder of an Allowed Palco Other Priority Claim shall receive from Reorganized Palco in full satisfaction, release and discharge of and in exchange for such Claim, (i) payment of Cash in an amount equal to the unpaid portion of such Allowed Palco Other Priority Claim, plus Postpetition Interest or (ii) such other treatment that the Palco Debtors and such Holder shall have agreed upon in writing; provided, however, that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (i).

4.2. Treatment of Palco Class 2 – Palco Secured Tax Claims.

4.2.1. **Impairment and Voting.** Palco Class 2 is impaired by this Joint Plan. Each Holder of an Allowed Palco Secured Tax Claim as of the Record Date is entitled to vote to accept or reject this Joint Plan.

4.2.2. **Distributions.** Each Holder of an Allowed Palco Secured Tax Claim shall, in full satisfaction, release and discharge of and in exchange for such Claim, be paid in full by Reorganized Palco through two equal installments of principal and simple interest accruing from the Petition Date, the rate of which shall be determined under applicable non-bankruptcy law. The first installment shall be paid on the six-month anniversary of the Effective Date and the second installment shall be paid on the first-year anniversary of the Effective Date. Any Lien securing an Allowed Palco Secured Tax Claim shall remain in full force and effect until such time that such Allowed Palco Secured Tax Claim is paid in full.

4.3. Treatment of Palco Class 3 – Palco Term Loan Claim.

4.3.1. **Impairment and Voting.** Palco Class 3 is impaired by this Joint Plan. The Holder of the Allowed Palco Term Loan Claims as of the Record Date is entitled to vote to accept or reject this Joint Plan.

4.3.2. **Distributions.** On the Distribution Date, the Holder of the Allowed Palco Term Loan Claims shall receive from Reorganized Palco in full satisfaction, release and discharge of and in exchange for such Claim, (i) the Palco Town Assets and 17.7% of the issued and outstanding common stock of Reorganized Palco, or (ii) such other treatment that the Palco Debtors and the Holder shall have agreed upon in writing.

4.3.3. **Full and Complete Satisfaction.** The Distributions to the Holder of the Allowed Palco Term Loan Claims under Article 4.3. shall be in full and complete satisfaction, release and discharge of and in exchange for all Allowed Palco Term Loan Claims. Except for the express obligations created by virtue of this Joint Plan, Reorganized Palco shall have no obligation under or with respect to the Palco Term Loan Claims or the Palco Term Loan Agreement. Without limiting the foregoing, (x) any and all further Claims for any amounts allegedly owing under the Palco Term Loan shall be discharged to the fullest extent permitted under section 1141 of the Bankruptcy Code and (y) the Palco Term Loan Agreement shall be cancelled and all obligations thereunder shall be deemed likewise discharged.

4.4. Treatment of Palco Class 4 – Palco General Unsecured Claims.

4.4.1. **Impairment and Voting.** Palco Class 4 is impaired by this Joint Plan. Each Holder of an Allowed Palco General Unsecured Claim as of the Record Date is entitled to vote to accept or reject this Joint Plan.

4.4.2. **Distributions.** Reorganized Palco shall pay to each Holder of an Allowed Palco General Unsecured Claim, in full satisfaction, release and discharge of and in exchange for such Claim (i) the Allowed Amount of such Holder's Allowed Palco General Unsecured Claim (excluding interest) on the first Business Day following the seventh anniversary of the Effective Date, and (ii) simple interest on the outstanding Allowed Amount of such Holder's Allowed Palco General Unsecured Claim, at 8.25% per annum from the Effective Date through payment in full of such principal amount. All interest shall be payable in Cash semi-annually in arrears, commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date.

Any obligations arising under this Article may be satisfied in full upon payment or prepayment of the Allowed Amount of any such Allowed Palco General Unsecured Claim (plus accrued but unpaid interest) at the

option of Reorganized Palco. The obligations of Reorganized Palco to make payments under this Article shall be unsecured.

4.5. Treatment of Palco Class 5 – Palco Inter-Debtor Claims.

4.5.1. *Impairment and Voting.* Palco Class 5 is impaired by this Joint Plan. Each Holder of an Allowed Palco Inter-Debtor Claim is entitled to vote to accept or reject this Joint Plan.

4.5.2. *Distributions.* Allowed Palco Inter-Debtor Claims shall be satisfied in full by operation of law upon consummation of the post confirmation merger provided for under Article 8.2.3. herein.

4.6. Treatment of Palco Class 6 – Scopac Claims.

4.6.1. *Impairment and Voting.* Palco Class 6 is impaired by this Joint Plan. Each Holder of an Allowed Scopac Claim is entitled to vote to accept or reject this Joint Plan.

4.6.2. *Distributions.* Reorganized Palco shall pay to each Holder of an Allowed Scopac Claim, in full satisfaction, release and discharge of and in exchange for such claim, the Allowed Amount of such Holder's Allowed Scopac Claim (including interest at 8.25% per annum) on the first Business Day following the eleventh anniversary of the Effective Date.

4.7. Treatment of Palco Class 7 – Palco Non-Debtor Affiliate Claims.

4.7.1. *Impairment and Voting.* Palco Class 7 is impaired by this Joint Plan. Each Holder of an Allowed Palco Non-Debtor Affiliate Claim is entitled to vote to accept or reject this Joint Plan.

4.7.2. *Distributions.* On the Effective Date, each Holder of an Allowed Palco Non-Debtor Affiliate Claim has agreed to release such Claims against Reorganized Palco.

4.8. Treatment of Palco Class 8 – Palco Convenience Class Claims.

4.8.1. *Impairment and Voting.* Palco Class 8 is impaired by this Joint Plan. Each Holder of an Allowed Palco Convenience Class Claim is entitled to vote to accept or reject this Joint Plan.

4.8.2. *Distributions.* On the Distribution Date, each Holder of an Allowed Palco General Unsecured Claim shall receive from Reorganized Palco in full satisfaction, release and discharge of and in exchange for such Claim, Cash equal to the lesser of (a) one hundred percent (100%) of the Allowed Amount of such Claim (excluding any interest) or (b) \$10,000 in Cash.

4.9. Treatment of Palco Class 9 – Palco Debtors Interests.

4.9.1. *Impairment and Voting.* Palco Class 9 is impaired by this Joint Plan. Each Holder of Interests in and of the Palco Debtors is entitled to vote to accept or reject this Joint Plan.

4.9.2. *Distributions.* The Holders of Interests in the Palco Debtors shall retain their Interests, subject to the dilution of such Interests in Reorganized Palco as provided by Articles 2.8 and 4.3 of this Joint Plan.

V.

SCOPAC: TREATMENT OF CLAIMS AND INTERESTS AND DESIGNATION WITH RESPECT TO IMPAIRMENT

5.1. Treatment of Scopac Class 1 – Scopac Other Priority Claims.

5.1.1. *Impairment and Voting.* Scopac Class 1 is unimpaired by this Joint Plan. Each Holder of an Allowed Scopac Other Priority Claim is conclusively presumed to have accepted this Joint Plan and is not entitled to vote to accept or reject this Joint Plan.

5.1.2. *Distributions.* On the Distribution Date, each Holder of an Allowed Scopac Other Priority Claim shall receive from Reorganized Scopac in full satisfaction, release and discharge of and in exchange for such Claim, (i) payment of Cash in an amount equal to the unpaid portion of such Allowed Scopac Other Priority Claim, plus Postpetition Interest, or (ii) such other treatment that Scopac and such Holder shall have agreed upon in writing; provided, however, that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (i).

5.2. Treatment of Scopac Class 2 – Scopac Secured Tax Claims.

5.2.1. *Impairment and Voting.* Scopac Class 2 is impaired by this Joint Plan. Each Holder of an Allowed Scopac Secured Tax Claim as of the Record Date is entitled to vote to accept or reject this Joint Plan.

5.2.2. *Distributions.* Each Holder of an Allowed Scopac Secured Tax Claim shall, in full satisfaction, release and discharge of and in exchange for such Claim, be paid by Reorganized Scopac in full through two equal installments of principal and simple interest accruing from the Petition Date, the rate of which shall be determined under applicable non-bankruptcy law. The first installment shall be paid on the six-month anniversary of the Effective Date and the second installment shall be paid on the first-year anniversary of the Effective Date. Any Lien securing an Allowed Scopac Secured Tax Claim shall remain in full force and effect until such time that such Allowed Scopac Secured Tax Claim is paid in full.

5.3. Treatment of Scopac Class 3 – Scopac Timber Noteholder Claims.

5.3.1. *Impairment and Voting.* Scopac Class 3 is impaired by this Joint Plan. Each Holder of an Allowed Scopac Timber Noteholder Claim as of the Record Date is entitled to vote to accept or reject this Joint Plan.

5.3.2. *Distributions.* Reorganized Scopac shall issue to the Prepetition Indenture Trustee, on behalf of the Holders of Scopac Timber Noteholder Claims as of the Record Date, for Distribution among such Holders on a Pro Rata basis (i) 375 million shares of New Scopac Preferred Stock, (ii) 49.0% of the issued and outstanding New Scopac Common Stock, and (iii) the New Timber Notes pursuant to the New Timber Notes Indenture and any related agreements as shall be set forth in the Plan Supplement.

5.3.3. *Terms of the New Scopac Preferred Stock.* The relative rights, preferences, privileges, powers and restrictions of the New Scopac Preferred Stock shall be set forth in the form of Certificate of Designation, Preferences and Rights of Preferred Stock included with the Plan Supplement and shall have the following material terms and conditions:

5.3.3.1. *Transferability.* The New Scopac Preferred Stock shall be freely transferable, except for any restrictions on transfer imposed by applicable federal or state securities laws.

5.3.3.2. *Optional Redemption.* Reorganized Scopac shall have the right, in its sole and absolute discretion, to redeem in whole or in part the New Scopac Preferred Stock by paying in cash an amount equal to the Stated Value per share of such shares of New Scopac Preferred Stock that are to be redeemed.

5.3.3.3. **Mandatory Redemption.** In the event that any sale of the Scopac Timberlands generates net proceeds in excess of \$100,000 (net of expenses and taxes arising in connection therewith), Reorganized Scopac shall be obligated to use 85% of such net proceeds towards the redemption of shares of outstanding New Scopac Preferred Stock as soon as practical but in no event later than the date that is 90 Business Days following the closing date of any such sale.

5.3.3.4. **Dividends.** Holders of the New Scopac Preferred Stock shall not be entitled to any dividends. Furthermore, Reorganized Scopac shall be prohibited from declaring any dividends to the Holders of New Scopac Common Stock until such time that 100% of the New Scopac Preferred Stock have been redeemed in full.

5.3.3.5. **Liquidation Preference.** In the event of any voluntary or involuntary liquidation, dissolution or winding up of Scopac, the holders of shares of New Scopac Preferred Stock shall receive cash equal to the Stated Value per share. If upon any such liquidation, dissolution or winding up the remaining assets of Scopac available for distribution to its stockholders shall be insufficient to pay the holders of shares of New Scopac Preferred Stock the full amount to which they are entitled, the holders of shares of New Scopac Preferred Stock shall share ratably in any distribution of the remaining assets and funds of Scopac in proportion to the respective amounts which would otherwise be payable in respect to the shares held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

5.3.3.6. **Voting Rights.** The New Scopac Preferred Stock shall have no voting rights.

5.3.4. **Terms of the New Scopac Common Stock.** The relative rights, preferences, privileges, powers and restrictions of the New Scopac Common Stock shall be set forth in the form of Certificate of Designation, Preferences and Rights of Common Stock included with the Plan Supplement and shall have the following material terms and conditions:

5.3.4.1. **Transferability.** The New Scopac Common Stock shall be freely transferable, except for any restrictions on transfer imposed by applicable federal or state securities laws.

5.3.4.2. **Voting Rights.** The New Scopac Common Stock shall have voting rights.

5.3.5. **Terms of the New Timber Notes.** The precise form of the New Timber Notes and the New Timber Notes Indenture shall be included in the Plan Supplement and have the following material terms and conditions:

5.3.5.1. **Transferability.** The New Timber Notes shall be freely transferable, except for any restrictions on transfer imposed by applicable federal or state securities laws.

5.3.5.2. **Principal Amount.** The New Timber Notes shall be in the aggregate original principal amount of \$225 million.

5.3.5.3. **Maturity.** The New Timber Notes shall be due and payable in full on the first Business Day following the tenth anniversary of the Effective Date.

5.3.5.4. **Interest.** The New Timber Notes shall bear simple interest on the original principal amount, less any principal payments made by Reorganized Scopac, at 7.5% per annum from the Effective Date through the final maturity date. All interest on the New Timber Notes shall be paid in Cash semi-annually in arrears, on each Semi-Annual Payment Date.

5.3.5.5. **Principal Payments.** The outstanding principal, plus accrued but unpaid interest, is due on maturity.

5.3.5.6. **Call Rights.** At any time while the New Timber Notes remain outstanding, Reorganized Scopac shall have the right, in its sole and absolute discretion, to prepay or repay in whole or in part the obligations under the New Timber Notes by paying the sum of the outstanding principal amount being prepaid or repaid, plus accrued but unpaid interest as of the date of such payment.

5.3.5.7. **Liens.** To secure payment of the New Timber Notes, the New Indenture Trustee shall be granted Liens on all of the Scopac Timberlands. These Liens shall be subordinated to the Liens granted in favor of the Scopac Exit Facility. The New Timber Notes shall include customary and usual Lien subordination provisions, including without limitation a standstill period to be determined.

5.3.5.8. **Right to Issue Senior Debt.** Reorganized Scopac may issue secured debt obligations pursuant to the Scopac Exit Facility that shall be senior to the New Timber Notes.

5.3.5.9. **Right to Redeem New Scopac Preferred Stock.** So long as Reorganized Scopac is not in default under the New Timber Notes, Reorganized Scopac, in its sole and absolute discretion, may redeem in whole or in part the New Scopac Preferred Stock on terms consistent with Article 5.3.3 of this Joint Plan and the Certificate of Designation, Preferences and Rights of Preferred Stock.

5.3.5.10. **Application of Payments.** Any and all payments made by Reorganized Scopac on account of the New Timber Notes shall be applied first to any accrued but unpaid interest and then to the outstanding principal balance.

5.3.5.11. **Cross Default.** Any default under the Exit Financing shall constitute a default under the New Timber Notes, subject to Reorganized Scopac's ability to cure such default in accordance with the terms of the Exit Financing.

5.3.6. **Collateral Sales.** The Liens granted to the New Indenture Trustee encumbering any asset shall be deemed released upon the sale of such asset, provided that the net proceeds of such sale (net of expenses and taxes arising in connection therewith) are applied in accordance with Article 5.3.3.5.

5.3.7. **Full and Complete Satisfaction.** The Distributions to the Prepetition Indenture Trustee under Article 5.3 shall be in full and complete satisfaction, release and discharge of and in exchange for all Allowed Scopac Timber Noteholder Claims. Except for the express obligations created by virtue of this Joint Plan, Reorganized Debtors shall have no obligation under or with respect to the Timber Noteholder Claims or the Prepetition Timber Notes. Without limiting the foregoing, (x) any and all further Claims for any amounts allegedly owing under the Prepetition Timber Notes and the Prepetition Indenture shall be discharged to the fullest extent permitted under section 1141 of the Bankruptcy Code, (y) the Prepetition Timber Notes and Prepetition Indenture shall be cancelled and all obligations thereunder shall be deemed likewise discharged, and (z) the Prepetition Indenture Trustee shall be discharged of all duties under the Prepetition Indenture. On the Effective Date, the Timber Noteholders shall be deemed to have forever released and discharged the Prepetition Indenture Trustee under the Prepetition Indenture.

5.4. **Treatment of Scopac Class 4 – Scopac Line of Credit Claim.**

5.4.1.1. **Impairment and Voting.** Scopac Class 4 is impaired by this Joint Plan. Each Holder of an Allowed Scopac Line of Credit Claim is entitled to vote to accept or reject this Joint Plan.

5.4.1.2. **Distributions.** On the Distribution Date, each Holder of an Allowed Scopac Line of Credit Claim shall receive from Reorganized Scopac (i) payment of Cash in an amount equal to the unpaid portion of such Scopac Line of Credit Claim plus accrued but unpaid interest, at the applicable non-default rate of interest under the Scopac Line of Credit or (ii) such other treatment that Scopac and such Holder shall have agreed upon in writing; *provided, however*, that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (i).

5.5. Treatment of Scopac Class 5 – Scopac General Unsecured Claims.

5.5.1. **Impairment and Voting.** Scopac Class 5 is impaired by this Joint Plan. Each Holder of an Allowed Scopac General Unsecured Claim as of the Record Date is entitled to vote to accept or reject this Joint Plan.

5.5.2. **Distributions.** Reorganized Scopac shall pay to each Holder of an Allowed Scopac General Unsecured Claim, in full satisfaction, release and discharge of and in exchange for such Claim, (i) the Allowed Amount of such Holder's Allowed Scopac General Unsecured Claim (excluding interest) on the first Business Day following the seventh anniversary of the Effective Date, and (ii) simple interest on the outstanding Allowed Amount of such Holder's Allowed Scopac General Unsecured Claim, at 8.25% per annum from the Effective Date through payment in full of such principal amount. All interest shall be payable in Cash semi-annually in arrears, commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date.

Any obligations arising under this Article may be satisfied in full upon payment or prepayment of the Allowed Amount of any such Allowed Scopac General Unsecured Claim (plus accrued but unpaid interest) at the option of Reorganized Scopac. The obligations of Reorganized Scopac to make payments under this Article shall be unsecured.

5.6. Treatment of Scopac Class 6 – Palco Debtor Claims.

5.6.1. **Impairment and Voting.** Scopac Class 6 is impaired by this Joint Plan. Each Holder of an Allowed Palco Debtor Claim is entitled to vote to accept or reject this Joint Plan.

5.6.2. **Distributions.** Reorganized Scopac shall pay to each Holder of an Allowed Palco Debtor Claim, in full satisfaction, release and discharge of and in exchange for such claim, the Allowed Amount of such Holder's Allowed Palco Debtor Claim (including interest at 8.25% per annum) on the first Business Day following the eleventh anniversary of the Effective Date.

5.7. Treatment of Scopac Class 7 – Scopac Non-Debtor Affiliate Claims.

5.7.1. **Impairment and Voting.** Scopac Class 7 is impaired by this Joint Plan. Each Holder of an Allowed Scopac Non-Debtor Affiliate Claim is entitled to vote to accept or reject this Joint Plan.

5.7.2. **Distributions.** As of the Effective Date, each Holder of an Allowed Scopac Non-Debtor Affiliate Claim has agreed to release such Claims against Reorganized Scopac.

5.8. Treatment of Scopac Class 8 – Scopac Convenience Class Claims.

5.8.1. **Impairment and Voting.** Scopac Class 8 is impaired by this Joint Plan. Each Holder of an Allowed Scopac Convenience Class Claim is entitled to vote to accept or reject this Joint Plan.

5.8.2. **Distributions.** On the Distribution Date, each Holder of an Allowed Scopac General Unsecured Claim shall receive from Reorganized Scopac in full satisfaction, release and discharge of and in exchange for such Claim, Cash equal to the lesser of (a) one hundred percent (100%) of the Allowed Amount of such Claim (excluding any postpetition interest) or (b) \$10,000 in Cash.

5.9. Treatment of Scopac Class 9 – Scopac Interests.

5.9.1. *Impairment and Voting.* Scopac Class 9 is impaired by this Joint Plan. Each Holder of Scopac Interest is entitled to vote to accept or reject this Joint Plan.

5.9.2. *Distributions.* On the Effective Date, Scopac's Interests will be cancelled and Holders of Scopac Interests shall receive, on a pro rata basis, 51.0% of the New Scopac Common Stock.

VI.

PROVISIONS REGARDING VOTING, EFFECT OF REJECTION BY IMPAIRED CLASSES, AND CONSEQUENCES OF NONCONFIRMABILITY

6.1. *Voting Rights.* Each Holder of an Allowed Claim or Allowed Interest as of the Voting Deadline in an impaired Class of Claims or Interests that is not deemed to have rejected this Joint Plan shall be entitled to vote separately to accept or reject this Joint Plan as provided in the order entered by the Bankruptcy Court establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject this Joint Plan.

6.2. *Acceptance Requirements.* An impaired Class of Claims shall have accepted this Joint Plan if votes in favor of this Joint Plan have been cast by at least two-thirds in amount and more than one-half in number of the Allowed Claims in such Class that have voted on this Joint Plan. An impaired Class of Interests shall have accepted this Joint Plan if votes in favor of this Joint Plan have been cast by at least two-thirds in amount of the Interests in such Class that have voted on this Joint Plan.

6.3. *Tabulation of the Votes.* The Palco Debtors shall tabulate all votes on this Joint Plan on a consolidated basis by Class for the purpose of determining whether this Joint Plan satisfies sections 1129(a)(8) and/or (10) of the Bankruptcy Code; *provided, however*, that if the Bankruptcy Court denies the Palco Debtors' request for substantive consolidation, the Palco Debtors shall tabulate all votes on a non-consolidated basis by Class. Scopac shall tabulate votes on a non-consolidated basis by Class for the purpose of determining whether this Joint Plan satisfies sections 1129(a)(8) and/or (10) of the Bankruptcy Code. If no impaired Classes accept this Joint Plan, the Debtors may modify this Joint Plan to appropriately address the rights of the Holders of Allowed Claims.

6.4. *Nonconfirmability.* If this Joint Plan has not been accepted by the requisite majorities and the Debtors determine that this Joint Plan cannot be confirmed under section 1129(b) of the Bankruptcy Code, or if the Bankruptcy Court upon consideration declines to approve Confirmation of this Joint Plan, the Debtors may in their sole discretion seek to either (i) propose a new plan or plans of reorganization, (ii) seek to amend the current Plan to satisfy all objections, if any, or (iii) seek to convert or dismiss the Chapter 11 Case.

VII.

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

7.1. *Rejection of Contracts and Leases.* Except as otherwise provided herein or pursuant to the Confirmation Order, all executory contracts and unexpired leases that exist between the Debtors and any person, shall be rejected pursuant to section 365(a) of the Bankruptcy Code as of the Effective Date, except for any such contract or lease (a) that has been assumed or rejected, or renegotiated and either assumed or rejected on renegotiated terms, pursuant to an order of the Bankruptcy Court entered prior to the Effective Date, (b) that has been entered into by the Debtors during the pendency of the Reorganization Cases in the ordinary course of business or pursuant to an order of the Bankruptcy Court, (c) that is the subject of a motion to reject, or a motion to approve renegotiated terms and to assume or reject on such renegotiated terms, that has been filed and served prior to the Effective Date, or (d) that is specifically treated otherwise in this Joint Plan. Entry of the Confirmation Order shall constitute approval, pursuant to section 365(a) of the Bankruptcy Code, of the rejection of executory contracts and unexpired leases provided for herein; *provided, however*, that any Environmental Obligation shall be treated as indicated in Article 2.9 of this Joint Plan and any order entered in connection with confirmation of the Plan is not intended to be, and shall not be construed as, a finding that any Environmental Obligation is an executory contract.

7.2. **Assumption of Certain Specified Contracts and Lease.** Notwithstanding anything to the contrary contained in this Joint Plan, including the immediately preceding Section, a list of Assumed Contracts which shall be deemed assumed pursuant to section 365(a) of the Bankruptcy Code as of the Effective Date shall be provided in the Plan Supplement, together with the Debtors' estimate of the cure costs that would result from such assumption; *provided, however*, that any Environmental Obligation shall be treated as indicated in Article 2.9 of this Joint Plan and any order entered in connection with confirmation of the Plan is not intended to be, and shall not be construed as, a finding that any Environmental Obligation is an executory contract.

7.3. **Cure of Defaults.** On the Effective Date, the Debtors (a) shall cure or provide adequate assurance that it shall cure any and all undisputed defaults under any executory contract or unexpired lease assumed pursuant to this Joint Plan and (b) compensate or provide adequate assurance that it shall promptly compensate the other parties to such executory contract or unexpired lease for the agreed amount of any actual pecuniary loss to such party resulting from such undisputed default in accordance with section 365(b)(1) of the Bankruptcy Code. In the event that the Debtors dispute the existence of a default, or the nature, extent or amount of any required cure, adequate assurance or compensation, the Debtors' obligations under section 365(b) of the Bankruptcy Code shall be determined at the Confirmation Hearing, and any such obligations shall be performed by the Debtor within thirty days after the Effective Date unless otherwise provided in the Confirmation Order.

7.4. **Rejection Claims.** If the rejection of an executory contract by the Debtors (pursuant to this Joint Plan or otherwise) results in a Claim, then such Claim shall be forever barred and shall not be enforceable against the Debtors or Reorganized Debtors, as the case may be, unless a Proof of Claim is filed with the Balloting and Claims Agent and served upon counsel for the Debtors no later than thirty days after the earlier of (i) entry of the Confirmation Order or (ii) entry of an order approving such rejection. Unless otherwise ordered by the Bankruptcy Court, all Claims arising from the rejection of executory contracts and unexpired leases shall be treated, to the extent they are Allowed Claims, as General Unsecured Claims if asserted against the Debtors.

VIII. MEANS OF IMPLEMENTATION OF THE PLAN

8.1. **Substantive Consolidation.** This Joint Plan does not substantively consolidate Scopac with the Palco Debtors for any purpose.

The Palco Debtors are substantively consolidated among themselves for all purposes and actions associated with consummation of this Joint Plan, including, without limitation, for purposes of voting and Confirmation. On and after the Effective Date, (a) all Assets and liabilities of the Palco Debtors shall be treated as though they were merged into the Palco Estate for purposes of this Joint Plan, (b) for all purposes associated with Confirmation, including, without limitation, for purposes of tallying acceptances and rejections of this Joint Plan, the Estates of the Palco Debtors shall be deemed to be one consolidated Estate, and (c) each and every Claim filed or to be filed in the Reorganization Cases of the Palco Debtors, shall be deemed filed against all the Palco Debtors, and shall be Claims against and obligations of all the Palco Debtors. As a result of the consolidation, any guaranty by one or more of the Palco Debtors of the obligations of another Palco Debtor shall be eliminated.

Substantive consolidation shall not affect distributions from any insurance policies or proceeds of such policies. See Article 8.2. for the post-petition legal and organizational structure of the Debtors.

In the event that the Bankruptcy Court does not order substantive consolidation of the Palco Debtors, then: (a) nothing in this Joint Plan or the Disclosure Statement shall constitute or be deemed to constitute an admission that one of the Palco Debtors is subject to or liable for any Claim against any other Palco Debtor; (b) Claims against multiple Palco Debtors shall be treated as separate Claims with respect to each Debtor's Estate for all purposes (including, without limitation, Distributions and voting), and such Claims shall be administered as provided in this Joint Plan; and (c) the Palco Debtors shall not, nor shall they be required to, resolicit votes with respect to this Joint Plan, nor will the failure of the Bankruptcy Court to approve substantive consolidation of the Palco Debtors materially alter the economics of the Distributions set forth in this Joint Plan. In the event that the Bankruptcy Court does not order substantive consolidation of the Palco Debtors, this Joint Plan shall be deemed to provide for six subplans of reorganization. A vote to accept this Joint Plan shall also be deemed a vote to accept a separate plan for each of the Palco Debtors against whom you hold your claim in the event that the Bankruptcy Court denies approval

of the substantive consolidation of the Palco Debtors, provided that the treatment of the Claim being voted would not be materially different in the absence of substantive consolidation.

8.2. ***Restructuring Transactions.***

8.2.1. ***Continued Corporate Existence.*** Except as provided herein, each Debtor shall continue to exist on or after the Effective Date as a separate corporate entity, with all the powers of a corporation or limited liability company, as the case may be, under applicable law and without prejudice to any right to alter or terminate such existence (whether by merger, dissolution, or otherwise) under applicable law.

8.2.2. ***Revesting of Assets.*** Except as expressly provided herein, the Assets of each Debtor's Estate shall revest with the respective Reorganized Debtor on the Effective Date. The Bankruptcy Court shall retain jurisdiction to determine disputes as to property interests created or vested by this Joint Plan. From and after the Effective Date, the Reorganized Debtors may operate their businesses, and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code, except as provided herein. As of the Effective Date, all property of the Reorganized Debtors shall be free and clear of all Claims and Interests, except as provided in this Joint Plan.

8.2.3. ***Merger.*** On the Effective Date—but after the cancellation of debt, discharge of Claims against the Debtors and re-vesting of Assets in the Reorganized Debtors—Britt, Salmon Creek, Scotia Inn and Scotia Development shall merge into Palco, with Reorganized Palco being the sole surviving entity. This Joint Plan does not provide for Reorganized Scopac to be merged into Reorganized Palco.

In addition to the merger into Reorganized Palco, the Palco Debtors may, (i) merge, dissolve, transfer assets, or otherwise consolidate any of the Debtors in furtherance of this Joint Plan or (ii) engage in any other transaction in furtherance of this Joint Plan. Any such transaction may be effected on or subsequent to the Effective Date without any further action by Interest Holders or the directors/managers of any of the Debtors or Reorganized Palco.

8.2.4. ***Revesting of the SAR Account.*** On or before the Effective Date, but before the re-vesting of Assets in the Reorganized Debtors, all property presently held in the SAR Account shall be transferred to the general corporate accounts of Scopac held at U.S. Bank of California, account number 153490135040, or some other unencumbered account, at the sole discretion of Scopac. The proceeds of the SAR Account shall be available for all uses including, but not limited to, funding obligations under this Joint Plan, paying Administrative Expense Claims, and paying ongoing working capital requirements.

8.2.5. ***Cancellation of Debt and Debt Agreements.*** On the Effective Date, the Palco Term Loan Agreement, the Prepetition Indenture, the Prepetition Timber Notes and the Scopac Line of Credit shall be cancelled and extinguished and all obligations of the Debtors thereunder shall be discharged. Notwithstanding the foregoing, the Prepetition Indenture shall continue in effect solely for the purposes of allowing the Prepetition Indenture Trustee to make Distributions to Holders of Allowed Scopac Timber Noteholder Claims pursuant to this Joint Plan.

8.2.6. ***Issuance of New Debt Instruments.*** The issuance of the New Timber Notes shall be authorized under section 1145 of the Bankruptcy Code as of the Effective Date without further act or action by any person, unless required by applicable law, regulation, order or rule; and all documents evidencing the same shall be executed and delivered as provided for in this Joint Plan or the Plan Supplement.

8.3. ***Post Effective-Date Management of the Reorganized Debtors.*** Except as expressly provided in this Joint Plan and Reorganized Palco's certificate of incorporation, which certificate may be amended from time to time, the operation, management and control of Reorganized Palco shall be the general responsibility of its board of directors or managers and senior officers, which shall thereafter have the responsibility for the management, control and operation of Reorganized Palco. Entry of the Confirmation Order shall ratify and approve all actions taken by each of the Palco Debtors from the Petition Date through and until the Effective Date; *provided, however*, that

nothing herein shall protect any Person from liability for any conduct in violation of any Environmental Obligation. Any such liability shall be determined under non-bankruptcy law in the appropriate forum.

Except as expressly provided in this Joint Plan and Reorganized Scopac's articles of incorporation, which articles may be amended from time to time, the operation, management and control of Reorganized Scopac shall be the general responsibility of its managers and senior officers, which shall thereafter have the responsibility for the management, control and operation of Reorganized Scopac. Entry of the Confirmation Order shall ratify and approve all actions taken by Scopac from the Petition Date through and until the Effective Date; *provided, however*, that nothing herein shall protect any Person from liability for any conduct in violation of any Environmental Obligation. Any such liability shall be determined under non-bankruptcy law in the appropriate forum.

8.3.1. **Directors and Officers of the Reorganized Debtors.** On and after the Effective Date, the business and affairs of Reorganized Palco and Reorganized Scopac shall be managed by the officers and directors, or managers in the case of Reorganized Scopac.

The Palco Board shall be comprised of seven members, and at all times shall include (i) four representatives designated by Marathon (each, a "Marathon Director"), (ii) two representatives designated by MGI (each, an "MGI Director"), and (iii) the Chief Executive Officer of Reorganized Palco, who shall be jointly agreed upon by the Marathon Directors and the MGI Directors.

The Scopac Board shall be comprised of five members, and at all times shall include (i) two representatives designated by the New Indenture Trustee (each, a "Noteholder Director"), (ii) two representatives designated by Palco (each, a "Palco-Designated Director"), and (iv) the Chief Executive Officer of Reorganized Scopac, who shall be jointly agreed upon by the Noteholder Directors and the Palco-Designated Directors.

Biographical information regarding the proposed officers, directors, and managers selected by Reorganized Palco or MGI as the case may be, shall be set forth in the Plan Supplement. A schedule of the annual compensation to be paid to all persons serving as executives, officers and directors or managers as of the Effective Date shall be set forth in the Plan Supplement.

8.3.2. **Super-Majority Board Approvals.** All decisions of the Palco Board or Scopac Board, as the case may be, will require a simple majority, except for the following which shall require the affirmative vote or written consent of six of the seven members of the Palco Board (for matters requiring approval of the Palco Board) or four of the five members of the Scopac Board (for matters requiring approval of the Scopac Board):

- amend or repeal any provision of such Reorganized Debtor's Bylaws and Certificate of Incorporation or Articles of Organization, as the case may be;
- authorize or effect the payment of dividends on any capital stock, or the redemption or repurchase of any capital stock;
- authorize or effect the issuance of any shares of capital stock or rights to acquire capital stock;
- authorize or effect (a) any sale, lease, transfer or other disposition of a material asset of such Reorganized Debtor outside of the ordinary course of business; (b) any merger or consolidation or other reorganization of such Reorganize Debtor with or into another corporation; (c) the acquisition of another entity by means of a purchase of all or substantially all of the capital stock or assets of such entity; (d) a Qualified Public Offering (as defined below); or (e) a liquidation, winding up, dissolution or adoption of any plan for the same;
- reclassify, cancel or in any manner alter or change the terms, designations, powers, preferences or relative, optional or other rights, or the qualifications, limitations or restrictions thereof, of any capital stock of such Reorganized Debtor;

- incur, either through the issuance of debt securities or the borrowing of money, unsecured indebtedness in excess of \$10 million in the aggregate;
- guarantee the indebtedness of any third party outside of the ordinary course of business in excess of \$1 million in the aggregate;
- enter into or engage in any business or activity outside of the ordinary course of business or otherwise not contemplated by the annual operating or capital budget or business plan approved by the Board;
- spend or commit to spend fifteen percent (15%) in excess of the aggregate amount specified in the budget approved for each year by their respective Boards in expenditures that are or should be classified as “capital expenditures” under U.S. generally accepted accounting principles;
- acquire any single asset or group of related assets in a single transaction or series of related transactions for an aggregate consideration (including any indebtedness incurred in connection therewith) in excess of \$10 million;
- enter into any transaction, other than employment agreements on a basis consistent with past practice, with any officer, director or beneficial owner of five percent (5%) or more of the capital stock of Reorganized Palco or Reorganized Scopac;
- grant registration rights with respect to any security or shares of capital stock of such Reorganized Debtor;
- with respect to Reorganized Palco, select the Palco-Designated Directors for Reorganized Scopac; or
- enter into any agreement or commitment or otherwise become bound or obligated to do or perform any of the foregoing actions.

For purposes hereof, “Qualified Public Offering” shall mean an underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of Palco to the public generally in which the aggregate net proceeds to such Reorganized Debtor are not less than \$10 million, and as a result of which shares of Common Stock are designated for trading on The New York Stock Exchange, The American Stock Exchange or the Nasdaq National Market.

8.3.3. *Corporate Governance Documents for the Reorganized Debtors.* As of the Effective Date, the certificate of incorporation and the by-laws of Reorganized Palco shall be substantially in the forms included in the Plan Supplement, with such changes as may be necessary to conform to the applicable laws of the state of incorporation. The initial certificate of incorporation and by-laws of Reorganized Palco, among other things, shall implement the super-majority requirements set forth above and shall prohibit the issuance of nonvoting equity securities to the extent required by section 1123(a) of the Bankruptcy Code. After the Effective Date, Reorganized Palco may amend and restate its certificate of incorporation and by-laws, as permitted under applicable state laws, subject to the terms and conditions of such documents and the provisions of this Joint Plan.

As of the Effective Date, the articles of organization and the by-laws of Reorganized Scopac shall be substantially in the forms included in the Plan Supplement, with such changes as may be necessary to conform to the applicable laws of the state of organization. The initial articles of organization and by-laws of Reorganized Scopac, among other things, shall implement the super-majority requirements set forth above and shall prohibit the issuance of nonvoting equity securities to the extent required by section 1123(a) of the Bankruptcy Code. After the Effective Date, Reorganized Scopac may amend and restate its articles of organization and by-laws, as permitted under applicable state laws, subject to the terms and conditions of such documents.

8.3.4. ***New Employment, Retirement, Indemnification and Other Related Agreements.*** As of the Effective Date, Reorganized Palco and Reorganized Scopac, as the case may be, shall have the authority, as determined by their respective governing Persons or Entities, to: (i) maintain, amend or revise existing employment, retirement, welfare, incentive, severance, indemnification and other agreements with its active and retired directors or managers, officers and employees, subject to the terms and conditions of any such agreement; and (ii) enter into new employment, retirement, welfare, incentive, severance, indemnification and other agreements for active and retired employees.

8.4. ***Exit Financing.*** On the Effective Date, without the requirement of further action by the Interest Holders or directors or managers of the Debtors, the Debtors shall be authorized to enter into the Palco Exit Facility and the Scopac Exit Facility, as well as any documents or agreements in connection with any of the forgoing, including without limitation, any documents required in connection with the creation or perfection of the Liens on the collateral for the Palco Exit Facility or the Scopac Exit Facility. The form of any such documents shall be included in the Plan Supplement. Confirmation of this Joint Plan shall constitute an approval of the transactions contemplated hereby and all the actions to be taken, undertakings to be made and obligation to be incurred by the Reorganized Debtors in connection therewith, including the granting of senior Liens on the Scopac Timberlands in favor of the Scopac Exit Facility and the granting of senior Liens on Palco's current assets in favor of the Palco Exit Facility. The Exit Financing may be used for any purpose permitted by the respective facilities, including the funding of obligations under this Joint Plan, such as the payment of Administrative Expense Claims, and the satisfaction of ongoing working capital requirements.

8.5. ***Authorization to Implement this Joint Plan.*** The entry of the Confirmation Order shall constitute authorization for the Debtors and Reorganized Debtors to take or cause to be taken all corporate actions necessary or appropriate to implement all provisions of, and to consummate, this Joint Plan and the Plan Documents prior to, on and after the Effective Date and all such actions taken or caused to be taken for which Bankruptcy Court authorization is required shall be deemed to have been authorized by the Bankruptcy Court without further act or action under any applicable law, order, rule or regulation, except as otherwise expressly set forth in the Plan (*i.e.* Article 8.6).

8.6. ***The Preserve Project Shall Comply With Environmental Laws.*** Notwithstanding any other provision of this Joint Plan, this Joint Plan and the Preserve Project is intended, designed and shall be implemented in such manner as to continue to be consistent with all elements, terms and conditions of the environmental permits and with all applicable environmental and regulatory requirements, including without limitation, the elements, terms, conditions, and requirements of all applicable environmental permits, plans, approvals, restrictions and covenants. More particularly, this Joint Plan and the Preserve Project shall be undertaken in compliance with all applicable statutory and regulatory land use, resource protection and environmental laws, including but not limited to the following:

- the federal Endangered Species Act (ESA) and associated regulations;
- the California Endangered Species Act (CESA) and other provisions of the California Fish and Game Code, including without limitation, section 1602 regarding streambed alterations, and sections 3503 and 3503.5 and associated regulations;
- the California Environmental Quality Act (CEQA) and associated regulations;
- the National Environmental Policy Act (NEPA) and associated regulatory guidelines;
- the California Forest Practices Act (FPA);
- the California Forest Practice Rules (FPR) and associated Maximum Sustained Production (MSP) regulations;
- the California Timber Productivity Act (TPA), including zoning requirements applicable to the affected lands;

- the California Porter-Cologne Water Quality Control Act and related Basin Plan provisions and regulations;
- the U.S. Clean Water Act (CWA);
- the California Subdivision Map and Subdivided Lands Acts; and
- California State Assembly Bill 1986 (AB 1986).

Under the Plan, the Debtors, or Reorganized Debtors as the case may be, shall comply, complete, perform, satisfy and/or provide for satisfaction or completion of all Environmental Obligations.

The Plan is specifically conceived and shall be implemented in a manner which complies with the California state and federal ITPs and consistency determinations under CESA, including the associated HCP and IA, as well as AB 1986, including the Agreement Relating to Enforcement of AB 1986 and the associated, recorded CC&Rs.

The Preserve Project may involve the transfer, sale and development of certain lands and properties now held in fee by certain of the Debtors and currently managed in accordance with the terms of the California State and federal ITPs, CESA consistency determinations, and Agreement Relating to Enforcement of AB 1986, described above. Many provisions of the HCP, IA and Agreement Relating to Enforcement of AB 1986, specifically address land transactions. The Preserve Project is intended, designed, and shall be implemented in compliance with these provisions.

With specific respect to land transfers under the Preserve Project, and consistent with all of the foregoing assurances, the Agreement Relating to Enforcement of AB 1986, including all restrictions and obligations set forth in Section 3.1 therein, are and shall remain recorded as valid covenants, conditions and restrictions (CC&Rs) which run with the land and remain binding on successors and assigns. An Assignment and Assumption Agreement shall be employed in all property sale transactions in accordance with applicable provisions of the HCP, IA, and Agreement Relating to Enforcement of AB 1986.

8.7. **Capital Contribution by MGI.** As a Plan Proponent, MGI has agreed to contribute \$10 million to Reorganized Palco on the Effective Date in the form of a capital contribution.

IX.

METHOD OF DISTRIBUTIONS UNDER THE PLAN AND CLAIMS RECONCILIATION

9.1. **Method of Distributions Under the Plan.** Distributions under this Joint Plan shall be made in accordance with the following:

9.1.1. **In General.** All Distributions under Article IV of this Joint Plan shall be made by Reorganized Palco and all Distributions under Article V of this Joint Plan shall be made by Reorganized Scopac. All Distributions under this Joint Plan to the Holders of Allowed Claims or Interests governed by an indenture shall be made in accordance with the provisions of the applicable indenture.

9.1.2. **Delivery of Distributions.** All Distributions to be made under this Joint Plan shall be made to Holders of Allowed Claims (a) if any such Holder has filed a Proof of Claim, at the address of such Holder as set forth in the Proof of Claim, or (b) if any such Holder has not filed a Proof of Claim, at the last known address of such Holder as set forth in the Debtors' books and records.

9.1.3. **Timing of Distributions.** Any payment or other Distribution required to be made under this Joint Plan on a day other than a Business Day shall be due on the next succeeding Business Day. All payments or Distributions due on the Effective Date shall be made thereon or as soon as practicable thereafter but in no event later than ten calendar days after the Effective Date.

9.1.4. **Distributions of Cash.** Any payment of Cash to be made pursuant to this Joint Plan shall be made by check drawn, or wire transfer made, on a bank, or as otherwise required or provided in any applicable documents, and payment shall be deemed made when the check or wire transfer is transmitted.

9.1.5. **Minimum Cash Distributions.** No Cash payment less than fifty dollars shall be made to any Holder of a Claim unless a request therefor is made in writing to applicable Reorganized Debtor.

9.1.6. **Unclaimed Distributions.** If any Cash or other Distribution pursuant to this Joint Plan, including but not limited to any Distribution of interest, to any Holder of an Allowed Claim is returned as undeliverable, the Debtor shall make reasonable efforts to determine the then-current address of such Holder, but no Distributions to such Holder shall be made unless and until the Reorganized Debtor has determined such address, at which time Distributions to such Holder shall be made without interest; *provided, however*, that such Distributions shall be deemed to be unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of one year after the Distribution was initially attempted. After such date, all Cash or other Distribution shall be forfeited and revested in Reorganized Palco or Reorganized Scopac, as the case may be, and the claim of any Holder to such Cash or other Distribution pursuant to this Joint Plan, including but not limited to any Distribution of interest, shall be discharged and forever barred.

9.1.7. **Withholding and Reporting Requirements.** In connection with this Joint Plan, the Debtors or Reorganized Debtors, as applicable, shall comply with all withholding and reporting requirements imposed by federal, state, local, and foreign taxing authorities and all Distributions hereunder shall be subject to such withholding and reporting requirements. Notwithstanding the above, each Holder of an Allowed Claim or Interest that is to receive a Distribution shall have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any government unit, including income, withholding and other tax obligations, on account of such Distribution. The Reorganized Debtors have the right, but not the obligation, to not make a Distribution until such Holder has made arrangements satisfactory to Reorganized Palco or Reorganized Scopac, as the case may be, for payment of any such tax obligations.

9.1.8. **Set off Rights.** The Debtors or Reorganized Debtors, as applicable, may, but shall not be required to, setoff against or recoup from the Holder of any Allowed Claim on which payments or other Distributions are to be made hereunder, claims of any nature that the Debtors or Reorganized Debtors, as the case may be, may have against the Holder of such Allowed Claim. However, neither the failure to do so, nor the allowance of any Claim under this Joint Plan, shall constitute a waiver or release by the Debtors or Reorganized Debtors, as the case may be, of any such claim against such holder, right of setoff or recoupment that the Debtors or Reorganized Debtors may have against the Holder of such Allowed Claim.

9.2. **Claims Administration Responsibility.**

9.2.1. **Right to Object to Claims.** The Reorganized Debtors, or the Debtors as the case may be, have the exclusive responsibility and authority for administering, disputing, objecting to, compromising and settling, or otherwise resolving and finalizing Distributions (if any) with respect to all Claims. Reorganized Debtors, or the Debtors as the case may be, also will have the right to litigate any Claims in any other court of competent jurisdiction, subject to any applicable state or federal statute of limitations. In addition, the Debtors may, at any time, request that the Bankruptcy Court estimate any contingent or unliquidated Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors have previously objected to such Claim.

9.2.2. **Claims Objection Deadline.** The Debtors or Reorganized Debtors, as the case may be, shall have until the date that is 180 days after the Effective Date to bring any objections to Claims; *provided, however*, that such deadline may be extended by the Bankruptcy Court upon motion of Reorganized Palco or Reorganized Scopac after notice and hearing.

9.2.3. **Compromise and Settlements.** From and after the Effective Date, and without any further approval by the Bankruptcy Court, Reorganized Palco or Reorganized Scopac, as the case may be, may compromise and settle (i) various Claims against the Debtors or their respective Estates and (ii) Causes of Action that Reorganized Debtors have against other Entities. Prior to the Effective Date, Debtors expressly reserve the

right to compromise and settle (subject to the approval of the Bankruptcy Court) Claims against them or other claims they may have against other Entities.

9.3. **Process for Disputing Claims.**

9.3.1. **Disallowance of Improperly Filed Claims.** Any Administrative Expense Claim or other Claim for which the filing of a motion for allowance is required shall be disallowed if such filing is not timely and properly made, subject to the right of the Claimant to seek permission under applicable law to file a late Claim.

9.3.2. **No Distributions Pending Allowance.** If a Claim or any portion of a Claim is disputed, no payment or Distribution shall be made on account of the disputed portion of such Claim (or the entire Claim, if the entire Claim is disputed), unless such Disputed Claim or portion thereof becomes an Allowed Claim.

9.3.3. **Distributions After Allowance.** Promptly after a Disputed Claim becomes an Allowed Claim, Reorganized Palco or Reorganized Scopac, as the case may be, shall distribute on the next succeeding Distribution Date to the Holder of such Allowed Claim any Cash other property that would have been distributed to the Holder of such Allowed Claim on the dates Distributions were previously made to Holders of other Allowed Claims had such Claim been an Allowed Claim on such dates.

X.

EFFECT OF CONFIRMATION OF PLAN

10.1. **Discharge.**

10.1.1. **Discharge of Claims Against the Debtors and Reorganized Debtors.** Except as otherwise expressly provided in this Joint Plan or the Confirmation Order, the Confirmation of this Joint Plan shall, as of the Effective Date: (i) discharge the Debtors, Reorganized Debtors or any of their Assets from all Claims, demands, liabilities, other debts and Interests that arose on or before the Effective Date, including all debts of the kind specified in sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not (A) a Proof of Claim based on such debt is filed or deemed filed pursuant to section 501 of the Bankruptcy Code, (B) a Claim based on such debt is Allowed pursuant to section 502 of the Bankruptcy Code or (C) the Holder of a Claim based on such debt has accepted this Joint Plan; and (ii) preclude all Persons from asserting against the Debtors, Reorganized Debtors, or any of their Assets, any other or further Claims or Interests based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, all pursuant to sections 524 and 1141 of the Bankruptcy Code. The discharge provided in this provision shall void any judgment obtained against any of the Debtors at any time, to the extent that such judgment relates to a discharged Claim or cancelled Interest.

10.1.2. **Injunction Related to the Discharge.** Except as otherwise provided in this Joint Plan or the Confirmation Order, all entities that have held, currently hold, or may hold Claims or other debts or liabilities against the Debtors, or an Interest or other right of an equity security Holder in any or all of the Debtors, that are discharged pursuant to the terms of this Joint Plan, are permanently enjoined, on and after the Effective Date, from taking any of the following actions on account of any such Claims, debts, liabilities or Interests or rights: (i) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim, debt, liability, Interest or right, other than to enforce any right to a Distribution pursuant to this Joint Plan; (ii) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree or order against the Debtors, Reorganized Debtors or any of their Assets on account of any such Claim, debt, liability, Interest or right; (iii) creating, perfecting, or enforcing any Lien or encumbrance against the Debtors, Reorganized Debtors or any of their Assets on account of any such Claim, debt, liability, Interest or right; (iv) asserting any right of setoff, subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtors, Reorganized Debtors or any of their Assets on account of any such Claim, debt, liability, Interest or right; and (v) commencing or continuing any action, in any manner, in any place that does not comply with or is inconsistent with the provisions of this Joint Plan or the Confirmation Order. Such injunction shall extend to any successor of the Debtors, Reorganized Debtors or any of their Assets. Any entity injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys'

and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

10.2. **Releases.**

10.2.1. **Releases by the Debtors.** As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, the Debtors in their individual capacity and as debtors-in-possession shall be deemed to release and forever waive and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date (including prior to the Petition Date) in any way relating to the Debtors, the Reorganization Cases, this Joint Plan or the Disclosure Statement, and that could have been asserted by or on behalf of the Debtors or their Estates at any time up to immediately prior to the Effective Date against the Released Parties; provided, however, that notwithstanding anything in this Joint Plan to the contrary, nothing herein shall be construed as a release by the Debtors of any Claim, obligation, suit, judgment, damage, demand, debt, right, Cause of Action or liability related to the Headwaters Litigation.

10.2.2. **Certain Waivers.** Although the Plan Proponents do not believe that California law is applicable to the Plan, nevertheless, in an abundance of caution, each Debtor hereby understands and waives the effect of Section 1542 of the California Civil Code to the extent that such section is applicable to the Debtors. Section 1542 of the California Civil Code provides:

“§1542. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.”

EACH DEBTOR AGREES TO ASSUME THE RISK OF ANY AND ALL UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS WHICH ARE RELEASED BY THIS JOINT PLAN AND EACH DEBTOR HEREBY WAIVES AND RELEASES ALL RIGHTS AND BENEFITS WHICH IT MIGHT OTHERWISE HAVE UNDER THE AFOREMENTIONED SECTION 1542 OF THE CALIFORNIA CIVIL CODE WITH REGARD TO THE RELEASE OF SUCH UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS. TO THE EXTENT (IF ANY) ANY OTHER LAWS SIMILAR TO SECTION 1542 OF THE CALIFORNIA CIVIL CODE MAY BE APPLICABLE, EACH DEBTOR WAIVES AND RELEASES ANY BENEFIT, RIGHT OR DEFENSE WHICH IT MIGHT OTHERWISE HAVE UNDER ANY SUCH LAW WITH REGARD TO THE RELEASE OF UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS.

10.2.3. **Preservation of Rights of Action by the Debtors and Reorganized Debtors.** Except as provided in this Joint Plan or in any contract, instrument, release or other agreement entered into or delivered in connection with this Joint Plan, in accordance with section 1123(b) of the Bankruptcy Code and to the fullest extent possible under applicable law, Reorganized Palco shall retain and may enforce, and shall have the sole right to enforce, any claims, demands, rights and Causes of Action that any of the Palco Debtors or their respective Estates may hold against any Entity. Reorganized Palco or its successors and may pursue such retained claims, demands, rights or Causes of Action, as appropriate, in accordance with the best interests of Reorganized Palco or its successors holding such claims, demands, rights or Causes of Action. Further, Reorganized Palco retains its right to file and pursue, and shall have the sole right to file and pursue, any adversary proceedings against any trade creditor or vendor related to debit balances or deposits owed to any of the Palco Debtors. Notwithstanding the foregoing, on the Effective Date, Reorganized Palco shall be deemed to waive and release any Causes of Action arising under sections 544(b), 547, or 548 of the Bankruptcy Code relating to Causes of Action held by any of the Palco Debtors or their Estates or Reorganized Palco against any

Entity, and any adversary proceeding filed on account of such action arising under sections 544, 547, or 548 of the Bankruptcy Code shall be dismissed.

Except as provided in this Joint Plan or in any contract, instrument, release or other agreement entered into or delivered in connection with this Joint Plan, in accordance with section 1123(b) of the Bankruptcy Code and to the fullest extent possible under applicable law, Reorganized Scopac shall retain and may enforce, and shall have the sole right to enforce, any claims, demands, rights and Causes of Action that Scopac or its Estate may hold against any Entity. Reorganized Scopac or its successors and may pursue such retained claims, demands, rights or Causes of Action, as appropriate, in accordance with the best interests of Reorganized Scopac or its successors holding such claims, demands, rights or Causes of Action. Further, Reorganized Scopac retains its right to file and pursue, and shall have the sole right to file and pursue, any adversary proceedings against any trade creditor or vendor related to debit balances or deposits owed to Scopac. Notwithstanding the foregoing, on the Effective Date, Reorganized Scopac shall be deemed to waive and release any Causes of Action arising under sections 544(b), 547, or 548 of the Bankruptcy Code relating to Causes of Action held by Scopac or its Estates or Reorganized Scopac against any Entity, and any adversary proceeding filed on account of such action arising under sections 544, 547, or 548 of the Bankruptcy Code shall be dismissed.

10.2.4. Injunction Related to Releases. To the fullest extent allowed by law, and except as otherwise provided in this Joint Plan or the Confirmation Order, all Entities that have held, currently hold, or may hold claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities that are released pursuant to Article 10.2.1. are permanently enjoined, on and after the Effective Date, from taking any of the following actions on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities: (i) commencing or continuing in any manner any action or other proceeding of any kind against a Released Party with respect to any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities; (ii) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree or order against any Released Party or any of its or their Assets on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities; (iii) creating, perfecting, or enforcing any Lien or encumbrance against any Released Party or any of its or their Assets on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities; (iv) asserting any right of setoff, subrogation or recoupment of any kind against any debt, liability or obligation due to any Released Party or any of its or their Assets on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities; and (v) commencing or continuing any action, in any manner, in any place that does not comply with or is inconsistent with the provisions of this Joint Plan or the Confirmation Order. Such injunction shall extend to any successor of any Released Party or any of its or their Assets. Any Entity injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

10.3. Exculpation. The Exculpated Parties shall not be liable, other than for gross negligence or willful misconduct, to any Holder of a Claim or Interest or any other Entity with respect to any action, omission, forbearance from action, decision, or exercise of discretion taken at any time prior to the Effective Date in connection with:

- the management or operation of the Debtors or the discharge of their duties under the Bankruptcy Code;
- the implementation of any of the transactions provided for, or contemplated in, this Joint Plan or the other Plan Documents;
- any action taken in connection with either the enforcement of the rights of any Debtor against any Entities or the defense of Claims asserted against any such Debtor with regard to the Reorganization Cases;
- any action taken in the negotiation, formulation, development, proposal, solicitation, disclosure, Confirmation, or implementation of this Joint Plan or the other Plan Documents; or

- the administration of this Joint Plan or the assets and property to be distributed pursuant to this Joint Plan.

In connection with this provision, the Exculpated Parties are entitled to reasonably rely upon the opinions of their respective counsel, accountants, and other experts or professionals and such reliance, if reasonable, shall conclusively establish the absence of gross negligence or willful misconduct; provided, however, that a determination that such reliance is unreasonable shall not, by itself, constitute a determination regarding the existence of willful misconduct or gross negligence.

If the Holder of a Claim or Interest or other Entity brings an action, suit or proceeding covered by this Article and does not prevail, such Holder or other Entity must pay the reasonable attorneys' fees and costs of the Exculpated Party. Moreover, as a condition to going forward with such action, suit, or proceeding, the Holder of a Claim or Interest or other Entity must, at the outset, provide appropriate proof and assurances of its capacity to pay the Exculpated Party's reasonable attorneys' fees and costs in the event the Holder or other Entity fails to prevail. The Exculpated Party shall have no obligation to pay, or provide appropriate proof and financial assurance of its capacity to pay, reasonable attorneys' fees and costs in the event that the Holder of a Claim or Interest or other Entity prevails in an such action, suit or proceeding against such Exculpated Party.

The Plan does not protect the Exculpated Parties from liability for any conduct in violation of any Environmental Obligation. Any such liability shall be determined under non-bankruptcy law in an appropriate forum.

10.4. **No Successor Liability.** Except as otherwise expressly provided herein, none of the Released Parties shall be determined to be successors to any of the Debtors or to any Entity for which the Debtors may be held legally responsible, by reason of any theory of law or equity, and none can be responsible for any successor or transferee liability of any kind or character. The Released Parties do not agree to perform, pay, or indemnify creditors or otherwise have any responsibilities for any liabilities or obligations of the Debtors or Reorganized Debtors, whether arising before, on, or after the Confirmation Date, except as otherwise expressly provided in this Joint Plan.

10.5. **Release of Liens.** Except as otherwise expressly provided in this Joint Plan or in any contract, instrument, indenture or other agreement or document expressly incorporated by reference in this Joint Plan, the Confirmation Order shall release any and all pre-petition Liens; *provided, however*, that (i) this provision shall not prevent Liens from attaching to Reorganized Debtors' Assets as provided for by either the Palco Exit Facility or the Scopac Exit Facility and (ii) pre-petition Liens shall be transferred to the Collateral of the Reorganized Debtors as provided herein.

10.6. **Term of Injunctions.** All injunctions or stays provided in, or in connection with, the Reorganization Cases, whether pursuant to section 105, section 362, or any other provision of the Bankruptcy Code, other applicable law or court order, in effect immediately prior to Confirmation shall remain in full force and effect until such injunctions become effective and shall remain in full force and effect thereafter if so provided in this Joint Plan, the Confirmation Order or by their own terms. In addition, on and after Confirmation Date, the Debtors may seek further orders to preserve the status quo during the time between the Confirmation Date and the Effective Date.

10.7. **Binding Effect.** This Joint Plan shall be binding upon, and inure to the benefit of, the Debtors, the Reorganized Debtors and all Holders of Claims and Interests, and their respective successors and assigns, whether or not the Claims and Interests of such Holders are impaired under this Joint Plan and whether or not such Holders have accepted this Joint Plan.

10.8. **Dissolution of the Committee.** The Committee shall be dissolved on the Effective Date and shall not continue to exist thereafter except for the limited purposes of filing any remaining fee applications, and the Professionals retained by the Committee shall be entitled to compensation for services performed and reimbursement of expenses incurred in connection therewith. Upon dissolution of the Committee, the members of the Committee shall be released and discharged of and from all duties, responsibilities and obligations related to and arising from and in connection with the Debtors' chapter 11 Cases.

10.9. **Post-Confirmation Date Retention of Professionals.** Upon the Effective Date, any requirement that Professionals employed by the Debtors comply with sections 327 through 331 of the Bankruptcy Code in seeking retention or compensation for services rendered after such date shall terminate, and Reorganized Palco or Reorganized Scopac, as the case may be, shall be authorized to employ and compensate Professionals in the ordinary course of business and without the need for Bankruptcy Court approval.

XI. EFFECTIVENESS OF THE PLAN

11.1. **Conditions Precedent.** This Joint Plan shall not become effective unless and until the following conditions have been satisfied:

11.1.1. **Conditions to Confirmation.**

11.1.1.1. **Disclosure Statement.** The Bankruptcy Court shall have approved a Disclosure Statement with respect to this Joint Plan as containing adequate information within the meaning of section 1125 of the Bankruptcy Code.

11.1.1.2. **Plan Supplement.** The Plan Documents to be provided in this Joint Plan Supplement are in a form that is satisfactory to the Debtors and the New Indenture Trustee.

11.1.2. **Conditions to Effective Date.**

11.1.2.1. **Confirmation Order.** At least ten days shall have passed after the Bankruptcy Court shall have entered the Confirmation Order in form and substance acceptable to the Debtors.

11.1.2.2. **No Stay of Confirmation.** There shall not be in force any order, decree or ruling of any court or governmental body having jurisdiction, restraining, enjoining or staying the consummation of, or rendering illegal the transactions contemplated by, this Joint Plan.

11.1.2.3. **Receipt of Required Authorization.** All authorizations, consents and regulatory approvals (if any) necessary to effectuate this Joint Plan shall have been obtained.

11.1.2.4. **Exit Financing.** The documents evidencing the Exit Financing shall be in form and substance reasonably acceptable to the Debtors and the Exit Lenders; and, to the extent any of such documents contemplates execution by one or more persons, any such document shall have been executed and delivered by the respective parties thereto, and all conditions precedent to the effectiveness of each such document shall have been satisfied or waived.

11.1.2.5. **Required Transactions.** All transactions required by this Joint Plan have been completed to the satisfaction of the Debtors.

11.2. **Effect of Failure of Conditions.** In the event that the conditions specified in Article 11.1. have not been satisfied on or before 120 days after the Confirmation Date, then the Debtors shall seek an order from the Bankruptcy Court vacating the Confirmation Order. If the Confirmation Order is vacated, (a) this Joint Plan shall be null and void in all respects; (b) any settlement of Claims or Interests provided for hereby shall be null and void without further order of the Bankruptcy Court; and (c) the time within which the Debtors may assume and assign or reject all executory contracts and unexpired leases shall be extended for a period of sixty days after the date the Confirmation Order is vacated.

XII.
RETENTION OF JURISDICTION

12.1. **Bankruptcy Court.** Pursuant to sections 105(c) and 1142 of the Bankruptcy Code and notwithstanding entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court will retain exclusive jurisdiction over all matters arising out of, and related to, the Reorganization Cases and this Joint Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

12.1.1. allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim or Interest, including, without limitation, the resolution of any request for payment of any Administrative Expense Claim or Priority Tax Claim and the resolution of any objections to the allowance or priority of Claims or Interests;

12.1.2. hear and rule upon all Causes of Action retained by the Debtors and commenced and/or pursued by the Debtors or Reorganized Debtors, provided that such Causes of Action are properly before the Bankruptcy Court;

12.1.3. resolve any matters related to the rejection, assumption or assumption and assignment of any executory contract or unexpired lease to which any Debtor is a party or with respect to which the Debtors may be liable and to hear, determine, and, if necessary, liquidate any Claims arising therefrom;

12.1.4. ensure that Distributions on Allowed Claims are accomplished pursuant to the provisions of this Joint Plan;

12.1.5. decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications involving the Debtors that may be pending on the Effective Date;

12.1.6. enter such orders as may be necessary or appropriate to implement or consummate the provisions of this Joint Plan and all contracts, instruments, releases and other agreements or documents created in connection with this Joint Plan, the Disclosure Statement or the Confirmation Order;

12.1.7. resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation, or enforcement of this Joint Plan or any contract, instrument, release or other agreement or document that is executed or created pursuant to this Joint Plan, or any entity's rights arising from or obligations incurred in connection with this Joint Plan or such documents;

12.1.8. approve any modification of this Joint Plan before or after the Effective Date pursuant to section 1127 of the Bankruptcy Code or approve any modification of the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with this Joint Plan, the Disclosure Statement or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, this Joint Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with this Joint Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate this Joint Plan;

12.1.9. hear and determine all applications for compensation and reimbursement of expenses of Professionals under this Joint Plan or under sections 330, 331, 363, 503(b), 1103 and 1129(a)(9) of the Bankruptcy Code, which shall be payable by the Debtors only upon allowance thereof pursuant to the order of the Bankruptcy Court, *provided, however*, that the fees and expenses of the Debtors, incurred after the Effective Date, including counsel fees, may be paid by the Debtors in the ordinary course of business and shall not be subject to the approval of the Bankruptcy Court;

12.1.10. issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Entity with consummation of this Joint Plan, implementation or enforcement of this Joint Plan or the Confirmation Order;

12.1.11. hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;

12.1.12. enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason or in any respect modified, stayed, reversed, revoked or vacated, or if Distributions pursuant to this Joint Plan are enjoined or stayed;

12.1.13. determine any other matters that may arise in connection with or relate to this Joint Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, or other agreement, or document created in connection with this Joint Plan, the Disclosure Statement or the Confirmation Order;

12.1.14. enforce all orders, judgments, injunctions, releases, exculpations, indemnifications and rulings entered in connection with the Reorganization Cases;

12.1.15. hear and determine all matters related to (i) the property of the Debtors and the Estates from and after the Confirmation Date and (ii) the activities of the Debtors or Reorganized Debtors; and

12.1.16. hear and determine such other matters as may be provided in the Confirmation Order or as may be authorized under the Bankruptcy Code.

12.2. ***Alternative Jurisdiction.*** In the event that the Bankruptcy Court is found to lack jurisdiction to resolve any matter, then such matter may be brought before any court having jurisdiction with regard thereto; provided, however, that any party voting to accept this Joint Plan consents to jurisdiction in the Southern District of Texas, Corpus Christi Division, regardless of whether the Class of which such party is a member votes to accept this Joint Plan.

XIII. MISCELLANEOUS PROVISIONS

13.1. ***Plan Supplement.*** No later than ten days prior to the Voting Deadline, the Debtors shall file with the Bankruptcy Court in the Plan Supplement such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Joint Plan. Holders of Claims or Interests may obtain a copy of the Plan Supplement upon written request to the Debtors' counsel.

13.2. ***Authorization of Effectuating Documents and Further Transactions.*** The Debtors' officers are authorized in accordance with their authority under the applicable governing documents and under the supervision of the board of directors or board of managers, as the case may be, to execute, deliver, file, or record such contracts, instruments, releases, indentures and other agreements or documents, and to take such actions as may be necessary or appropriate, to effectuate and further evidence the terms and conditions of this Joint Plan and the debt and equity securities issued pursuant to this Joint Plan.

13.3. ***Exemption from Transfer Taxes.*** Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under this Joint Plan, the creation of any mortgage, deed of trust, Lien, pledge or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with this Joint Plan, shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax.

13.4. ***Exemption for Registration Requirements.*** Pursuant to section 1145 of the Bankruptcy Code, the offering, issuance and Distribution of any securities contemplated by this Joint Plan shall be exempt from, among other things, the registration requirements of Section 5 of the Securities Act and any state or local law requiring registration prior to the offering, issuance, distribution or sale of securities. In addition, any securities contemplated

by this Joint Plan shall be tradable by the recipients thereof, subject to (i) the provisions of section 1145(b)(1) of the Bankruptcy Code; and (ii) the restrictions, if any, on the transferability of such securities and instruments.

13.5. **Statutory Fees.** All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date.

13.6. **Third Party Agreements.** The Distributions to the various Classes of Claims and Interests hereunder shall not affect the right of any Person to levy, garnish, attach, or employ any other legal process with respect to such Distributions by reason of any claimed subordination rights or otherwise. All of such rights and any agreements relating thereto shall remain in full force and effect, except as compromised and settled pursuant to this Joint Plan. Distributions shall be subject to and modified by any Final Order directing distributions other than as provided in this Joint Plan.

13.7. **Amendment or Modification of Plan.** As provided in section 1127 of the Bankruptcy Code, modification of this Joint Plan may be proposed in writing by the Plan Proponents at any time before Confirmation, provided that this Joint Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code, and the Plan Proponents shall have complied with section 1125 of the Bankruptcy Code. The Plan Proponents may modify this Joint Plan at any time after Confirmation and before consummation of this Joint Plan, provided that this Joint Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms this Joint Plan as modified, under section 1129 of the Bankruptcy Code, and the circumstances warrant such modifications. A Holder of a Claim that has accepted this Joint Plan shall be deemed to have accepted such Plan as modified if the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim or Interest of such Holder.

13.8. **Severability.** In the event that the Bankruptcy Court determines, prior to the Confirmation Date, that any provision in this Joint Plan is invalid, void or unenforceable, the Debtors may, at their option, (a) treat such provision as invalid, void or unenforceable with respect to the Holder or Holders of such Claims or Interests that the provision is determined to be invalid, void or unenforceable, in which case such provision shall in no way limit or affect the enforceability and operative effect of any other provision of this Joint Plan, or (b) alter, amend, revoke, or withdraw this Joint Plan.

13.9. **Revocation or Withdrawal of Plan.** The Plan Proponents reserve the right to revoke and withdraw this Joint Plan or to adjourn the Confirmation Hearing at any time prior to the occurrence of the Effective Date. If the Plan Proponents revoke or withdraw this Joint Plan, or if Confirmation or consummation does not occur, then (i) this Joint Plan shall be null and void in all respects, (ii) any settlement or compromise embodied in this Joint Plan, assumption or rejection of executory contracts or unexpired leases under this Joint Plan, and any document or agreement executed pursuant to this Joint Plan, shall be deemed null and void, and (iii) nothing contained in this Joint Plan shall (A) constitute a waiver or release of any Claims by or against, or Interests in, such Debtors or any other Person, (B) prejudice in any manner the rights of such Debtors or any other Person, or (C) constitute an admission of any sort by the Debtors or any other Person.

For the avoidance of doubt, if the Confirmation Hearing is adjourned, the Plan Proponents reserve the right to amend, modify, revoke or withdraw this Joint Plan and/or submit any new plan of reorganization at such times and in such manner as they consider appropriate, subject to the provisions of the Bankruptcy Code.

13.10. **Rules Governing Conflicts Between Documents.** In the event of a conflict between the terms or provisions of this Joint Plan and the Plan Documents, the terms of this Joint Plan shall control over the Plan Documents. In the event of a conflict between the terms of this Joint Plan or the Plan Documents, on the one hand, and the terms of the Confirmation Order, on the other hand, the terms of the Confirmation Order shall control. In the event of a conflict between the information contained in the Disclosure Statement and this Joint Plan or any other Plan Document, this Joint Plan or other Plan Document (as the case may be) shall control.

13.11. **Governing Law.** Except to the extent that federal law (including, but not limited to, the Bankruptcy Code and the Bankruptcy Rules) is applicable or this Joint Plan provides otherwise, the rights and

obligations arising under this Joint Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York without giving effect to its conflicts of law principles.

13.12. **Notices.** Any notice required or permitted to be provided under this Joint Plan shall be in writing and served by either (a) certified mail, return receipt requested, postage prepaid, (b) hand delivery, or (c) reputable overnight delivery service, freight prepaid. If to the Debtors, any such notice shall be directed to the following at the addresses set forth below:

Reorganized Palco
P.O. Box 37
Scotia, CA 95565

with a copy to:

Baker Botts L.L.P.
2001 Ross Avenue
Dallas, Texas 75201-2980
Attention: Jack L. Kinzie

and

Reorganized Scopac
P.O. Box 37
Scotia, CA 95565

with a copy to:

Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, New York 10166
Attention: Kathryn A. Coleman

13.13. **Interest and Attorneys' Fees.** Interest accrued after the Petition Date shall accrue and be paid on Claims only to the extent specifically provided for in this Joint Plan, the Confirmation Order or as otherwise required by the Bankruptcy Court or by applicable law. No award or reimbursement of attorneys' fees or related expenses or disbursements shall be allowed on, or in connection with, any Claim, except as set forth in this Joint Plan or as ordered by the Bankruptcy Court.

13.14. **Binding Effect.** This Joint Plan shall be binding upon the Debtors, Reorganized Debtors, the Holders of all Claims and Interests, parties in interest, Persons, Entities and Governmental Units and their respective successors and assigns. To the extent any provision of the Disclosure Statement or any other solicitation document may be inconsistent with the terms of this Joint Plan, the terms of this Joint Plan shall be binding and conclusive.

13.15. **No Admissions.** As to contested matters, adversary proceedings and other Causes of Action or threatened Causes of Actions, nothing in this Joint Plan, Disclosure Statement or other Plan Documents shall constitute or be construed as an admission by any Person of any fact or liability, stipulation, or waiver, but rather as a statement made in settlement negotiations. This Joint Plan shall not be construed to be conclusive advice on the tax, securities, and other legal effects of this Joint Plan as to Holders of Claims against, or Interests in, the Debtors or any of their subsidiaries and affiliates, as debtors and debtors-in-possession in these Reorganization Cases.

13.16. **Exhibits.** All Exhibits and Schedules to this Joint Plan are incorporated into and are a part of this Joint Plan as if set forth in full herein.

The undersigned have executed this Joint Plan of Reorganization as of this 30th day of January 2008.

Respectfully submitted,

<p>The Pacific Lumber Company, a Delaware Corporation</p> <p>By: <u>/s/ George A. O'Brien</u> George A. O'Brien President and Chief Executive Officer</p> <p>Britt Lumber Co., Inc., a California Corporation</p> <p>By: <u>/s/ George A. O'Brien</u> George A. O'Brien Chief Executive Officer</p> <p>Salmon Creek LLC, a Delaware limited liability company</p> <p>By: <u>/s/ George A. O'Brien</u> George A. O'Brien Executive Vice President</p> <p>Scotia Development LLC, a Texas limited liability company</p> <p>By: <u>/s/ George A. O'Brien</u> George A. O'Brien Executive Vice President</p> <p>Scotia Inn Inc., a Delaware Corporation</p> <p>By: <u>/s/ George A. O'Brien</u> George A. O'Brien President and Chief Executive Officer</p> <p>Scotia Pacific Company LLC, a Delaware limited liability company</p> <p>By: <u>/s/ Jeffrey C. Barrett</u> Jeffrey C. Barrett Vice President</p>	<p>MAXXAM Inc., a Delaware Corporation</p> <p>By: <u>/s/ M. Emily Madison</u> M. Emily Madison Vice President, Finance</p> <p>MAXXAM Group Holdings Inc., a Delaware Corporation</p> <p>By: <u>/s/ M. Emily Madison</u> M. Emily Madison Vice President, Finance</p> <p>MAXXAM Group Inc., a Delaware Corporation</p> <p>By: <u>/s/ M. Emily Madison</u> M. Emily Madison Vice President, Finance</p>
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