

EXHIBIT C-3

**FIRST ALTERNATIVE PLAN OF REORGANIZATION FOR SCOTIA PACIFIC
COMPANY LLC PROPOSED BY THE DEBTORS AND MAXXAM ENTITIES**

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

IN RE:

SCOTIA DEVELOPMENT LLC,
THE PACIFIC LUMBER COMPANY,
BRITT LUMBER CO., INC.,
SALMON CREEK LLC,
SCOTIA INN INC., and
SCOTIA PACIFIC COMPANY LLC,

Chapter 11
Case Nos. 07-20027 through 07-20032
(Jointly Administered)

DEBTORS.

**PLAN PROPONENTS' FIRST ALTERNATIVE PLAN OF REORGANIZATION
FOR SCOTIA PACIFIC COMPANY LLC UNDER CHAPTER 11
OF THE UNITED STATES BANKRUPTCY CODE**

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Dated: January 30, 2008

TABLE OF CONTENTS

I. DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME 1

 1.1. Definitions 1

 1.2. Rules of Construction 1

 1.3. Computation of Time..... 1

II. TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS, PRIORITY TAX CLAIMS AND PROFESSIONAL COMPENSATION CLAIMS AGAINST THE DEBTORS..... 1

 2.1. Administrative Expense Claims 1

 2.2. Bar Date for Filing Administrative Expense Claims 2

 2.3. Professional Compensation Claims 2

 2.4. Priority Tax Claims 2

 2.5. Treatment of Environmental Obligations 2

III. CLASSIFICATION OF CLAIMS AGAINST AND INTERESTS IN SCOPAC 3

 3.1. Classification of Claims..... 3

 3.2. Classes 3

IV. TREATMENT OF CLAIMS AND INTERESTS AND DESIGNATION WITH RESPECT TO IMPAIRMENT 3

 4.1. Treatment of Scopac Class 1 – Scopac Other Priority Claims. 3

 4.2. Treatment of Scopac Class 2 – Scopac Secured Tax Claims..... 4

 4.3. Treatment of Scopac Class 3 – Scopac Timber Noteholder Claims. 4

 4.4. Treatment of Scopac Class 4 – Scopac Line of Credit Claim. 4

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

 4.6. Treatment of Scopac Class 6 – Palco Debtor Claims. 5

 4.7. Treatment of Scopac Class 7 – Scopac Non-Debtor Affiliate Claims. 5

 4.8. Treatment of Scopac Class 8 – Scopac Convenience Class Claims. 6

 4.9. Treatment of Scopac Class 9 – Scopac Interests. 6

V. PROVISIONS REGARDING VOTING, EFFECT OF REJECTION BY IMPAIRED CLASSES, AND CONSEQUENCES OF NONCONFIRMABILITY 6

 5.1. Voting Rights..... 6

 5.2. Acceptance Requirements 6

 5.3. Cramdown 6

 5.4. Tabulation of the Votes 6

 5.5. Nonconfirmability 6

VI. EXECUTORY CONTRACTS AND UNEXPIRED LEASES..... 7

 6.1. Rejection of Contracts and Leases..... 7

 6.2. Assumption of Certain Specified Contracts and Leases 7

 6.3. Cure of Defaults 7

 6.4. Rejection Claims 7

VII. MEANS OF IMPLEMENTATION OF THE PLAN 7

 7.1. Restructuring Transactions 7

 7.2. Post Effective-Date Management of Reorganized Scopac 8

 7.3. Corporate Governance for Reorganized Scopac..... 8

 7.4. Exit Financing 8

 7.5. Authorization to Implement this Scopac Alternative Plan..... 8

 7.6. The Development Project Shall Comply With Environmental Laws 9

VIII. METHOD OF DISTRIBUTIONS UNDER THE PLAN AND CLAIMS RECONCILIATION 10

 8.1. Method of Distributions Under the Plan..... 10

 8.2. Claims Administration Responsibility..... 11

8.3.	Process for Disputing Claims	11
IX.	EFFECT OF CONFIRMATION OF PLAN.....	11
9.1.	Discharge.....	11
9.2.	Releases.....	12
9.3.	Exculpation.....	13
9.4.	No Successor Liability.....	14
9.5.	Release of Liens	14
9.6.	Term of Injunctions	14
9.7.	Binding Effect	14
9.8.	Dissolution of the Committee.....	15
9.9.	Post-Confirmation Date Retention of Professionals.....	15
X.	EFFECTIVENESS OF THE PLAN	15
10.1.	Conditions Precedent.....	15
10.2.	Effect of Failure of Conditions.....	16
XI.	RETENTION OF JURISDICTION.....	16
11.1.	Bankruptcy Court	16
11.2.	Alternative Jurisdiction.....	17
XII.	MISCELLANEOUS PROVISIONS	17
12.1.	Plan Supplement.....	17
12.2.	Authorization of Effectuating Documents and Further Transactions	17
12.3.	Exemption from Transfer Taxes.....	18
12.4.	Exemption for Registration Requirements	18
12.5.	Statutory Fees	18
12.6.	Third Party Agreements.....	18
12.7.	Amendment or Modification of Plan.....	18
12.8.	Severability.....	18
12.9.	Revocation or Withdrawal of Plan	18
12.10.	Rules Governing Conflicts Between Documents	19
12.11.	Governing Law	19
12.12.	Notices.....	19
12.13.	Interest and Attorneys' Fees.....	19
12.14.	Binding Effect	19
12.15.	No Admissions	19
12.16.	Exhibits.....	19

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 (collectively the “Debtors”), together with MAXXAM, MGI, and MAXXAM Group Holdings Inc., respectfully propose the following Plan of Reorganization for Scotia Pacific Company LLC (“Scopac”) pursuant to section 1121(a) of title 11 of the United States Code for the resolution of outstanding Claims against and Interests in Scopac. **This Scopac Alternative Plan is proposed for consideration only in the event that the Bankruptcy Court enters an order declining to confirm the Second Amended Joint Plan of Reorganization for all six of the Debtors proposed concurrently herewith.**

Reference is made to the Disclosure Statement with respect to this Scopac Alternative Plan, distributed contemporaneously herewith, for a discussion of Scopac’s history, businesses, properties, and operations, risk factors, and a summary and analysis of this Scopac Alternative 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 Scopac Alternative Plan prior to consummation of this Scopac Alternative 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 SCOPAC ALTERNATIVE PLAN.

I.

DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME

1.1. **Definitions.** As used in this Scopac Alternative 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 Scopac Alternative 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 Scopac Alternative Plan are to the respective section in, article of, or schedule or exhibit to, this Scopac Alternative Plan, as the same may be amended, waived or modified from time to time.

1.2. **Rules of Construction.** For purposes of this Scopac Alternative Plan, unless otherwise provided herein: (a) any reference in this Scopac Alternative 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 Scopac Alternative Plan to the Introduction, Articles and Sections are references to the Introduction, Articles and Sections of or to this Scopac Alternative 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 Scopac Alternative Plan, (d) the words “herein,” “hereof,” “hereunder,” “hereto” and other words of similar import refer to this Scopac Alternative Plan in its entirety rather than to a particular portion of this Scopac Alternative 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 Scopac Alternative 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 and (ii) the date on which an Administrative Expense Claim becomes Allowed, Reorganized Scopac 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) shall file with the Bankruptcy Court and serve on Scopac 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 Holder of the Administrative Expense Claim, (b) 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 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 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 Scopac Alternative 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 Scopac, as the case may be, upon receipt of an invoice therefore, or on such other terms as the Professional and Reorganized Scopac 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 Scopac 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. ***Treatment of Environmental Obligations.*** Notwithstanding any provision in the Plan, as amended from time to time, the Scopac Debtors and Reorganized Scopac, 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 Scopac's business at such time and in such manner as Reorganized Scopac 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.

III.
CLASSIFICATION OF CLAIMS AGAINST AND INTERESTS IN SCOPAC

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 Scopac. A Claim or Interest is placed in a particular Class for the purposes of voting on this Scopac Alternative Plan and of receiving Distributions pursuant to this Scopac Alternative 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.

This Scopac Alternative Plan constitutes a separate chapter 11 plan of reorganization for Scopac that will be proposed by the Proponents for confirmation if, and only if, the Bankruptcy Court declines to confirm the Debtors' Joint Plan. Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of Classes of Claims against and Interests in Scopac.

3.2. **Classes.**

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

3.2.1.2. **Scopac Class 1:** Scopac Other Priority Claims.

3.2.1.3. **Scopac Class 2:** Scopac Secured Tax Claims.

3.2.1.4. **Scopac Class 3:** Scopac Timber Noteholder Claims.

3.2.1.5. **Scopac Class 4:** Scopac Line of Credit Claims.

3.2.1.6. **Scopac Class 5:** Scopac General Unsecured Claims.

3.2.1.7. **Scopac Class 6:** Palco Debtor Claims.

3.2.1.8. **Scopac Class 7:** Scopac Non-Debtor Affiliate Claims.

3.2.1.9. **Scopac Class 8:** Scopac Convenience Class Claims.

3.2.1.10. **Scopac Class 9:** Scopac Interests.

IV.
**TREATMENT OF CLAIMS AND INTERESTS AND DESIGNATION WITH RESPECT TO
IMPAIRMENT**

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

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

4.1.2. **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).

4.2. **Treatment of Scopac Class 2 – Scopac Secured Tax Claims.**

4.2.1. **Impairment and Voting.** Scopac Class 2 is impaired by this Scopac Alternative Plan. Each Holder of an Allowed Scopac Secured Tax Claim is conclusively presumed to have accepted this Scopac Alternative Plan and is not entitled to vote to accept or reject this Scopac Alternative Plan.

4.2.2. **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 in cash on the Distribution Date.

4.3. **Treatment of Scopac Class 3 – Scopac Timber Noteholder Claims.**

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

4.3.2. **Transfer of Producing Timberlands.** On the Effective Date, Scopac shall transfer the Producing Timberlands to the Prepetition Indenture Trustee in full satisfaction, release and discharge of the Scopac Timber Noteholder Claims.

4.3.3. **Entry Into Postconfirmation Palco Log Agreement** Scopac shall enter into the Postconfirmation Palco Log Purchase Agreement, and by their execution of transfer documents for the Producing Timberlands, the Timber Noteholders shall be deemed to assume the obligations under the Postconfirmation Palco Log Purchase Agreement.

4.3.4. **Full and Complete Satisfaction.** The transfer to the Prepetition Indenture Trustee under Article 4.3 shall be in full and complete satisfaction, release and discharge of and in exchange for all Allowed Scopac Timber Noteholder Claims. 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.

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

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

4.4.2. **Distributions.** On the Distribution Date, if the Palco Alternative Plan is confirmed, then each Holder of an Allowed Secured Line of Credit Claim shall receive from Reorganized Scopac Cash in an amount equal to the Allowed Amount of the Scopac Line of Credit Claim (including accrued but unpaid interest at the applicable non-default rate as of the Distribution Date); if, however, the Palco Alternative Plan is *not* confirmed as of the Distribution Date, then each Holder of an Allowed Scopac Line of Credit Claim shall receive from Reorganized Scopac (i) payment of \$20 million in Cash and the Bank of America Note 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).

4.4.3. **Terms of the Bank of America Note.** The precise form of the Bank of America Note shall be included in the Plan Supplement and shall have the following material terms and conditions:

4.4.3.1. **Transferability.** The Bank of America Note shall be freely transferable, except for any restrictions on transfer imposed by applicable federal or state securities laws.

4.4.3.2. **Principal Amount.** The Bank of America Note shall be in the aggregate original principal amount equal to the Allowed Amount of the Scopac Line of Credit Claim (including accrued but unpaid interest as of the Effective Date) less \$20 million.

4.4.3.3. **Maturity.** The Bank of America Note shall be due and payable in full on the first Business Day following the six-month anniversary of the Effective Date.

4.4.3.4. **Interest.** The Bank of America Note shall bear simple interest on the original principal amount, less any principal payments made by Reorganized Scopac, at 8.25% per annum from the Effective Date through the final maturity date. All interest on the Bank of America Note shall be paid on maturity.

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

4.4.3.6. **Call Rights.** At any time while the Bank of America Note remains 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 Bank of America Note 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.

4.4.3.7. **Liens.** To secure payment of the Bank of America Note, Bank of America shall be granted first-priority Liens on the MMCAs and the Redwood Preserve Development.

4.4.3.8. **Application of Payments.** Any and all payments made by Reorganized Scopac on account of the Bank of America Note shall be applied first to any accrued but unpaid interest and then to the outstanding principal balance.

4.5. **Treatment of Scopac Class 5 – Scopac General Unsecured Claims.**

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

4.5.2. **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, cash on the Distribution Date in the Allowed Amount of such Holder's Allowed Scopac General Unsecured Claim (excluding interest).

4.6. **Treatment of Scopac Class 6 – Palco Debtor Claims.**

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

4.6.2. **Distributions.** On the Distribution Date, each Palco Debtor Claim shall be released.

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

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

4.7.2. **Distributions.** On the Distribution Date, each Holder of an Allowed Scopac Non-Debtor Affiliate Claim shall be released.

4.8. **Treatment of Scopac Class 8 – Scopac Convenience Class Claims.**

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

4.8.2. **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) and (b) \$10,000 in Cash.

4.9. **Treatment of Scopac Class 9 – Scopac Interests.**

4.9.1. **Impairment and Voting.** Scopac Class 9 is unimpaired by this Scopac Alternative Plan. Each Holder of Scopac Interest is conclusively presumed to have accepted this Scopac Alternative Plan and is not entitled to vote to accept or reject this Scopac Alternative Plan.

4.9.2. **Transfer of Non-Producing Timberlands.** Holders of Scopac Interests will retain their Interests.

V.

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

5.1. **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 Scopac Alternative Plan shall be entitled to vote separately to accept or reject this Scopac Alternative 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 Scopac Alternative Plan.

5.2. **Acceptance Requirements.** An impaired Class of Claims shall have accepted this Scopac Alternative Plan if votes in favor of this Scopac Alternative 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 Scopac Alternative Plan. An impaired Class of Interests shall have accepted this Scopac Alternative Plan if votes in favor of this Scopac Alternative Plan have been cast by at least two-thirds in amount of the Interests in such Class that have voted on this Scopac Alternative Plan.

5.3. **Cramdown.** If all applicable requirements for Confirmation of this Scopac Alternative Plan are met as set forth in section 1129(a)(1) through (13) of the Bankruptcy Code, except subsection (8) thereof, this Scopac Alternative Plan shall be treated as a request that the Bankruptcy Court confirm this Scopac Alternative Plan in accordance with section 1129(b) of the Bankruptcy Code, notwithstanding the failure to satisfy the requirements of section 1129(a)(8), on the basis that this Scopac Alternative Plan is fair and equitable and does not discriminate unfairly with respect to each Class of Claims that is impaired under, and has not accepted, this Scopac Alternative Plan.

5.4. **Tabulation of the Votes.** Scopac shall tabulate votes by Class for the purpose of determining whether this Scopac Alternative Plan satisfies sections 1129(a)(8) and/or (10) of the Bankruptcy Code. If no impaired Classes accept this Scopac Alternative Plan, Scopac may modify this Scopac Alternative Plan to appropriately address the rights of the Holders of Allowed Claims.

5.5. **Nonconfirmability.** If this Scopac Alternative Plan has not been accepted by the requisite majorities and Scopac determines that this Scopac Alternative 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 Scopac Alternative Plan, Scopac may in its 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.

VI. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.1. **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 Scopac 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 Scopac 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 Scopac Alternative 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 2.5 of this Scopac Alternative 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.

6.2. **Assumption of Certain Specified Contracts and Leases.** Notwithstanding anything to the contrary contained in this Scopac Alternative 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 Scopac's estimate of the cure costs that would result from such assumption; *provided, however*, that any Environmental Obligation shall be treated as indicated in Article 2.5 of this Scopac Alternative 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.

6.3. **Cure of Defaults.** On the Effective Date, Scopac (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 Scopac Alternative 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 Scopac disputes the existence of a default, or the nature, extent or amount of any required cure, adequate assurance or compensation, Scopac's 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.

6.4. **Rejection Claims.** If Scopac's rejection of an executory contract (pursuant to this Scopac Alternative Plan or otherwise) results in a Claim, then such Claim shall be forever barred and shall not be enforceable against Scopac or Reorganized Scopac unless a Proof of Claim is filed with the Balloting and Claims Agent and served upon counsel for Scopac no later than thirty days after the earlier of (i) entry of the Confirmation Order and (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 Scopac.

VII. MEANS OF IMPLEMENTATION OF THE PLAN

7.1. **Restructuring Transactions.**

7.1.1. **Continued Corporate Existence.** Except as provided herein, Scopac 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.

7.1.2. **Revesting of Assets.** Except as expressly provided herein, Scopac's Assets shall revest with Reorganized Scopac on the Effective Date. The Bankruptcy Court shall retain jurisdiction to determine disputes as to property interests created or vested by this Scopac Alternative Plan. From and after the Effective Date, Reorganized Scopac may implement the provisions of this Scopac Alternative Plan, and may use, acquire, and dispose of property in connection therewith, free of any restrictions of the Bankruptcy Code, except as provided herein. As of the Effective Date, all property of Reorganized Scopac shall be free and clear of all Claims and Interests, except as provided in this Scopac Alternative Plan.

7.1.3. **Revesting of the SAR Account.** On or before the Effective Date, but before the re-vesting of Assets in Reorganized Scopac, 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 Scopac Alternative Plan, paying Administrative Expense Claims, and paying ongoing working capital requirements.

7.1.4. **Cancellation of Debt and Debt Agreements.** On the Effective Date, 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.

7.2. **Post Effective-Date Management of Reorganized Scopac.** Except as expressly provided in this Scopac Alternative 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.

7.3. **Corporate Governance for Reorganized Scopac.** On and after the Effective Date, the business and affairs of Reorganized Scopac shall be managed by the officers and directors, or managers in the case of Reorganized Scopac. 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.

7.4. **Exit Financing.** On the Effective Date, without the requirement of further action by the Board of Managers of Reorganized Scopac, Reorganized Scopac shall be authorized to enter into 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 Scopac Exit Facility. The form of any such documents shall be included in the Plan Supplement. Confirmation of this Scopac Alternative 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 Reorganized Scopac in connection therewith, including the granting of senior Liens on the Producing Timberlands in favor of the Scopac Exit Facility. The Exit Financing may be used for any purpose permitted by the respective facilities, including the funding of obligations under this Scopac Alternative Plan, such as the payment of Administrative Expense Claims.

7.5. **Authorization to Implement this Scopac Alternative 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 Scopac Alternative 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 7.7).

7.6. ***The Development Project Shall Comply With Environmental Laws.*** Notwithstanding any other provision of this Scopac Alternative Plan, this Scopac Alternative Plan and the Development 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 Scopac Alternative Plan and the Development 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, Scopac, or Reorganized Scopac, as the case may be, shall comply, complete, perform, satisfy and/or provide for satisfaction or completion of all Environmental Obligations, and the Producing Timberlands shall be transferred to the Timber Noteholders subject to all Environmental Requirements.

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 Development 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 Development Project is intended, designed, and shall be implemented in compliance with these provisions.

With specific respect to land transfers under the Development 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.

VIII. METHOD OF DISTRIBUTIONS UNDER THE PLAN AND CLAIMS RECONCILIATION

8.1. ***Method of Distributions Under the Plan.*** Distributions under this Scopac Alternative Plan shall be made in accordance with the following:

8.1.1. ***In General.*** All Distributions under Article IV of this Scopac Alternative Plan shall be made by Reorganized Scopac. All Distributions under this Scopac Alternative 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.

8.1.2. ***Delivery of Distributions.*** All Distributions to be made under this Scopac Alternative 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.

8.1.3. ***Timing of Distributions.*** Any payment or other Distribution required to be made under this Scopac Alternative 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.

8.1.4. ***Distributions of Cash.*** Any payment of Cash to be made pursuant to this Scopac Alternative 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.

8.1.5. ***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.

8.1.6. ***Unclaimed Distributions.*** If any Cash or other Distribution pursuant to this Scopac Alternative 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 Scopac, and the claim of any Holder to such Cash or other Distribution pursuant to this Scopac Alternative Plan, including but not limited to any Distribution of interest, shall be discharged and forever barred.

8.1.7. ***Set off Rights.*** Scopac or Reorganized Scopac, may, but shall not be required to, set off 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 Scopac or Reorganized Scopac, 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 Scopac Alternative Plan, shall constitute a waiver or release by Scopac or Reorganized Scopac, as the case may be, of any such claim against such holder, right of setoff or recoupment that Scopac or Reorganized Scopac may have against the Holder of such Allowed Claim.

8.2. *Claims Administration Responsibility.*

8.2.1. *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.

8.2.2. *Claims Objection Deadline.* Scopac or Reorganized Scopac, 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 Scopac after notice and hearing.

8.2.3. *Compromise and Settlements.* From and after the Effective Date, and without any further approval by the Bankruptcy Court, 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.

8.3. *Process for Disputing Claims.*

8.3.1. *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.

8.3.2. *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.

8.3.3. *Distributions After Allowance.* Promptly after a Disputed Claim becomes an Allowed Claim, 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.

IX.

EFFECT OF CONFIRMATION OF PLAN

9.1. *Discharge.*

9.1.1. *Discharge of Claims Against Scopac and Reorganized Scopac.* Except as otherwise expressly provided in this Scopac Alternative Plan or the Confirmation Order, the Confirmation of this Scopac Alternative Plan shall, as of the Effective Date: (i) discharge Scopac, Reorganized Scopac and any of either 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 Scopac Alternative Plan; and (ii) preclude all Persons from asserting against Scopac, Reorganized Scopac, or any of either 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.

9.1.2. ***Injunction Related to the Discharge.*** Except as otherwise provided in this Scopac Alternative Plan or the Confirmation Order, all entities that have held, currently hold, or may hold Claims or other debts or liabilities against Scopac, or an Interest or other right of an equity security Holder in Scopac, that are discharged pursuant to the terms of this Scopac Alternative 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 Scopac Alternative Plan; (ii) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree or order against Scopac, Reorganized Scopac 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 Scopac, Reorganized Scopac, or any of either 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 Scopac, Reorganized Scopac 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 Scopac Alternative 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.

9.2. ***Releases.***

9.2.1. ***Releases by Scopac.*** As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, Scopac in its individual capacity and as debtor-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 Scopac, the Reorganization Cases, this Scopac Alternative Plan or the Disclosure Statement, and that could have been asserted by or on behalf of Scopac or its Estate at any time up to immediately prior to the Effective Date against the Scopac Released Parties; *provided, however*, that notwithstanding anything in this Scopac Alternative Plan to the contrary, nothing herein shall be construed as a release by Scopac of any Claim, obligation, suit, judgment, damage, demand, debt, right, Cause of Action or liability related to the Headwaters Litigation.

9.2.2. ***Certain Waivers.*** Although the Plan Proponents do not believe that California law is applicable to the Plan, nevertheless, in an abundance of caution, Scopac hereby represents that it 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.”

SCOPAC 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 SCOPAC ALTERNATIVE 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.

9.2.3. *Preservation of Rights of Action by Scopac and Reorganized Scopac.*

Except as provided in this Scopac Alternative Plan or in any contract, instrument, release or other agreement entered into or delivered in connection with this Scopac Alternative 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.

9.2.4. *Injunction Related to Releases.* To the fullest extent allowed by law, and except as otherwise provided in this Scopac Alternative 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 9.2.1. 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 Scopac Alternative 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.

9.3. *Exculpation.* The Scopac 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 Scopac or the discharge of their duties under the Bankruptcy Code;
- the implementation of any of the transactions provided for, or contemplated in, this Scopac Alternative 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 Scopac Alternative Plan or the other Plan Documents; or
- the administration of this Scopac Alternative Plan or the assets and property to be distributed pursuant to this Scopac Alternative Plan.

In connection with this provision, the Scopac 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 Scopac 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 Scopac Exculpated Party's reasonable attorneys' fees and costs in the event the Holder or other Entity fails to prevail. The Scopac 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 Scopac Exculpated Party.

The Plan does not protect the Scopac 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.

9.4. **No Successor Liability.** Except as otherwise expressly provided herein, none of the Scopac Released Parties shall be determined to be a successor to Scopac or to any Entity for which Scopac 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 Scopac Released Parties do not agree to perform, pay, or indemnify creditors or otherwise have any responsibilities for any liabilities or obligations of Scopac or Reorganized Scopac, whether arising before, on, or after the Confirmation Date, except as otherwise expressly provided in this Scopac Alternative Plan.

9.5. **Release of Liens.** Except as otherwise expressly provided in this Scopac Alternative Plan or in any contract, instrument, indenture or other agreement or document expressly incorporated by reference in this Scopac Alternative 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 Scopac's Assets as provided for by this Scopac Alternative Plan and (ii) pre-petition Liens shall be transferred to the Assets of Reorganized Scopac to the extent provided herein.

9.6. **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 Scopac Alternative Plan, the Confirmation Order or by their own terms. In addition, on and after Confirmation Date, Scopac may seek further orders to preserve the status quo during the time between the Confirmation Date and the Effective Date.

9.7. **Binding Effect.** This Scopac Alternative Plan shall be binding upon, and inure to the benefit of, Scopac, Reorganized Scopac 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 Scopac Alternative Plan and whether or not such Holders have accepted this Scopac Alternative Plan.

9.8. ***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 in the same manner and to the same extent such Professionals were entitled to such compensation prior to dissolution of the Committee. 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 Scopac's chapter 11 Case.

9.9. ***Post-Confirmation Date Retention of Professionals.*** Upon the Effective Date, any requirement that Professionals employed by Scopac 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 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.

X. EFFECTIVENESS OF THE PLAN

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

10.1.1. ***Conditions to Confirmation.***

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

10.1.1.2. ***Plan Supplement.*** The Plan Documents to be provided in this Scopac Alternative Plan Supplement are in a form that is satisfactory to Scopac.

10.1.2. ***Failure of Joint Plan to be Confirmed.*** The Bankruptcy Court shall have entered an order declining to confirm the Joint Plan proposed by the Debtors concurrently herewith.

10.1.3. ***Conditions to Effective Date.***

10.1.3.1. ***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 Scopac.

10.1.3.2. ***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 Scopac Alternative Plan.

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

10.1.3.4. ***Exit Financing.*** The documents evidencing the Exit Financing shall be in form and substance reasonably acceptable to Scopac 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.

10.1.3.5. **Required Transactions.** All transactions required by this Scopac Alternative Plan have been completed to the satisfaction of Scopac.

10.2. **Effect of Failure of Conditions.** In the event that the conditions specified in Article 10.1. have not been satisfied on or before 120 days after the Confirmation Date, then Scopac shall seek an order from the Bankruptcy Court vacating the Confirmation Order. If the Confirmation Order is vacated, (a) this Scopac Alternative 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.

XI. RETENTION OF JURISDICTION

11.1. **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 Scopac Alternative Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

11.1.1. 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;

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

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

11.1.4. ensure that Distributions on Allowed Claims are accomplished pursuant to the provisions of this Scopac Alternative Plan;

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

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

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

11.1.8. approve any modification of this Scopac Alternative 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 Scopac Alternative Plan, the Disclosure Statement or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, this Scopac Alternative Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in

connection with this Scopac Alternative Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate this Scopac Alternative Plan;

11.1.9. hear and determine all applications for compensation and reimbursement of expenses of Professionals under this Scopac Alternative 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;

11.1.10. 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 Scopac Alternative Plan, implementation or enforcement of this Scopac Alternative Plan or the Confirmation Order;

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

11.1.12. 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 Scopac Alternative Plan are enjoined or stayed;

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

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

11.1.15. 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

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

11.2. ***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 Scopac Alternative 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 Scopac Alternative Plan.

XII. MISCELLANEOUS PROVISIONS

12.1. ***Plan Supplement.*** No later than ten days prior to the Voting Deadline, Scopac 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 Scopac Alternative Plan. Holders of Claims or Interests may obtain a copy of the Plan Supplement upon written request to Scopac's counsel.

12.2. ***Authorization of Effectuating Documents and Further Transactions.*** Scopac's 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 Scopac Alternative Plan and the debt and equity securities issued pursuant to this Scopac Alternative Plan.

12.3. **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 Scopac Alternative 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 Scopac Alternative Plan, shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax.

12.4. **Exemption for Registration Requirements.** Pursuant to section 1145 of the Bankruptcy Code, the offering, issuance and Distribution of any securities contemplated by this Scopac Alternative 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 Scopac Alternative 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.

12.5. **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 Scopac on or before the Effective Date.

12.6. **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 Scopac Alternative Plan. Distributions shall be subject to and modified by any Final Order directing distributions other than as provided in this Scopac Alternative Plan.

12.7. **Amendment or Modification of Plan.** As provided in section 1127 of the Bankruptcy Code, modification of this Scopac Alternative Plan may be proposed in writing by the Plan Proponents at any time before Confirmation, provided that this Scopac Alternative 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 Scopac Alternative Plan at any time after Confirmation and before consummation of this Scopac Alternative Plan, provided that this Scopac Alternative 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 Scopac Alternative 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 Scopac Alternative 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.

12.8. **Severability.** In the event that the Bankruptcy Court determines, prior to the Confirmation Date, that any provision in this Scopac Alternative 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 Scopac Alternative Plan, or (b) alter, amend, revoke, or withdraw this Scopac Alternative Plan.

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

12.10. **Rules Governing Conflicts Between Documents.** In the event of a conflict between the terms or provisions of this Scopac Alternative Plan and the Plan Documents, the terms of this Scopac Alternative Plan shall control over the Plan Documents. In the event of a conflict between the terms of this Scopac Alternative 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 Scopac Alternative Plan or any other Plan Document, this Scopac Alternative Plan or other Plan Document (as the case may be) shall control.

12.11. **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 Scopac Alternative Plan provides otherwise, the rights and obligations arising under this Scopac Alternative 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.

12.12. **Notices.** Any notice required or permitted to be provided under this Scopac Alternative 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 Scopac, any such notice shall be directed to the following at the addresses set forth below:

Reorganized Scopac
Attention: Emily Madison
1330 Post Oak Blvd., Suite 2000
Houston, Texas 77056

with a copy to:

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

12.13. **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 Scopac Alternative 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 Scopac Alternative Plan or as ordered by the Bankruptcy Court.

12.14. **Binding Effect.** This Scopac Alternative Plan shall be binding upon Scopac, Reorganized Scopac, 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 Scopac Alternative Plan, the terms of this Scopac Alternative Plan shall be binding and conclusive.

12.15. **No Admissions.** As to contested matters, adversary proceedings and other Causes of Action or threatened Causes of Actions, nothing in this Scopac Alternative 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 Scopac Alternative Plan shall not be construed to be conclusive advice on the tax, securities, and other legal effects of this Scopac Alternative Plan as to Holders of Claims against, or Interests in, Scopac or any of its- subsidiaries and affiliates, as debtor and debtor-in-possession in its Reorganization Case.

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

The undersigned have executed this Scopac Alternative 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>MAXXAM Inc., a Delaware Corporation</p> <p>By: <u>/s/ M. Emily Madison</u> M. Emily Madison Vice President, Finance</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>MAXXAM Group Holdings Inc., a Delaware Corporation</p> <p>By: <u>/s/ M. Emily Madison</u> M. Emily Madison Vice President, Finance</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>MAXXAM Group Inc., a Delaware Corporation</p> <p>By: <u>/s/ M. Emily Madison</u> M. Emily Madison Vice President, Finance</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>	