



ENTERED
12/30/2008

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

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

**STIPULATION AND AGREED ORDER REGARDING SETTLEMENT OF GIBSON
DUNN & CRUTCHER LLP'S FEE AND EXPENSE APPLICATIONS, INCLUDING
RELATED OBJECTIONS FILED BY HUMBOLDT REDWOOD COMPANY, LLC**

This Stipulation and Agreed Proposed Order ("Agreement")¹ dated as of December 30, 2008, is entered into by and between Gibson, Dunn & Crutcher LLP ("GD&C") and Humboldt Redwood Company, LLC ("HRC"), and jointly file this stipulation and agreed order to reflect their agreement as follows:

RECITALS

A. On July 8, 2008, the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division (the "Bankruptcy Court") entered its order ("Confirmation Order") confirming the **FIRST AMENDED JOINT PLAN OF REORGANIZATION FOR THE DEBTORS, AS FURTHER MODIFIED, WITH TECHNICAL MODIFICATIONS, PROPOSED BY MENDOCINO REDWOOD COMPANY, LLC, MARATHON STRUCTURED FINANCE FUND L.P. AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS** in the cases administratively consolidated as In re Scotia Development, LLC, (U.S.B.C. Case No. 07-20027) (the "MRC/Marathon Plan.")

¹ Any terms not defined herein shall have the meaning ascribed to them in the GD&C Fee Order dated December 24, 2008.

B. HRC is a "Reorganized Debtor" as defined in the MRC/Marathon Plan, and as such is obligated, pursuant to Section 3.1 of the MRC/Marathon Plan and the Confirmation Order, to pay GD&C's allowed fees and expenses as contained in the GD&C Fee Order.

C. GD&C was general bankruptcy counsel to Scopac from January 19, 2007 through July 30, 2008.

D. The Indenture Trustee for the Timber Notes issued by Scopac, and certain others, filed notices of appeal as to the entry of the Confirmation Order and the appeal is currently pending before the United States Court of Appeals for the Fifth Circuit ("Fifth Circuit").

E. On December 24, 2008, the Bankruptcy Court entered its order on (i) the Fourth Interim Application for Fees and Expenses of Gibson, Dunn & Crutcher LLP, as Counsel to Scotia Pacific Company LLC ("Scopac" or "Debtor") for the Period of February 1, 2008 through July 30, 2008 and Final Application for the Period January 18, 2007 through July 30, 2008 (the "Fourth Fee Application") [Docket No. 3599], and (ii) the Supplement to Fourth and Final Fee Application of Gibson, Dunn & Crutcher LLP for the Period August 1, 2008 through August 31, 2008 (the "Supplemental Fee Application") [Docket No. 3724] ("GD&C Fee Order").

F. TownCo did not object to the Fourth Fee Application, the Supplemental Fee Application or the form of the GD&C Fee Order.

G. The GD&C Fee Order provides in part that: "HRC and TownCo (who are jointly and severally liable to pay the amounts ordered herein) is authorized and directed to pay to Gibson, in immediately available funds, the total sum of **\$6,801,561.84** (the "Final Payment"), which amount reflects the aggregate total of fees and expenses approved herein in the amount of \$14,531,664.78, less the Post-Petition Payments and the Advance."

SETTLEMENT

NOW, THEREFORE, in consideration of the foregoing and to resolve further disputes of the GD&C Fee Order, GD&C and HRC now agree, and upon entry by the Court, the Court hereby Orders, as follows:

1. HRC shall pay or cause to be paid to GD&C by wire transfer the total sum of **\$5,800,000.00** ("the Settlement Payment") such that the Settlement Payment is actually received in GD&C's account (to be designated by GD&C) by not later than 3 pm PST on December 31, 2008.

2. Upon the payment of the Settlement Payment on or before the deadline set forth above, and subject to the terms, conditions and exceptions set forth in this Agreement, the Settlement Payment shall be in full and final payment, satisfaction and discharge of all amounts due GD&C (including the Final Payment) by HRC, Townco, the proponents of the MRC/Marathon Plan (the "MRC/Marathon Plan Proponents"), the Debtors or anyone else obligated to make any payments pursuant to the GD&C Fee Order or under the Bankruptcy Code.

3. Except as provided in this Agreement, upon entry of this proposed Order, any and all objections or any other right to assert a challenge, including without limitation the right to appeal, move for reargument, move for rehearing, or make any claim for relief under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure (or any analogous bankruptcy rules) as to Gibson's Final Fee Application or the GD&C Fee Order, are waived, withdrawn and forever released by HRC.

4. If the Confirmation Order is overturned, reversed or materially modified by an order of the Fifth Circuit or any other court of competent jurisdiction, then not later than the 30th

day following the date on which that order overturning, reversing or materially modifying the Confirmation Order is entered, HRC (or its equity holders) may bring a motion before the Bankruptcy Court seeking an order requiring GD&C to return the Settlement Payment to HRC provided, however, that HRC shall not be entitled to interest. Except as necessary to allow HRC (or its equity holders) to avoid liability for GD&C's fees and expenses under the GD&C Fee Order and recover the Settlement Payment, HRC (or its equity holders) agree that any such motion will not challenge or seek to modify or vacate the findings of the Bankruptcy Court set forth in the GD&C Fee Order, to again raise any objection to the allowance of GD&C's fees and expenses or otherwise re-litigate issues resolved by the GD&C Fee Order; provided that HRC (and its equity holders) expressly retain the right to challenge HRC's obligation to pay any such fees and retain the right to seek reimbursement of any administrative claims paid under the MRC/Marathon Plan. Subject to paragraph 5 below, upon the filing of a motion by HRC (or its equity holders) to recover all or any portion of the Settlement Payment, GD&C shall be entitled to oppose any such motion on any basis.

5. Notwithstanding paragraph 4 above, if the Fifth Circuit or any other court of competent jurisdiction reverses or vacates the Confirmation Order and orders (or mandates that the Bankruptcy Court order) that HRC is divested of title to the assets formerly owned by Scopac transferred to it (or its predecessor) as a result of confirmation of the MRC/Marathon Plan, GD&C agrees not to object to any motion filed by HRC to recover the Settlement Payment, provided however, HRC shall not be entitled to interest.

6. If HRC (or its equity holders) is successful in recovering all or any portion of the Settlement Payment from GD&C, GD&C shall retain all rights without prejudice, whatever they may be, to seek payment of its fees and expenses in the amount approved in the GD&C Fee

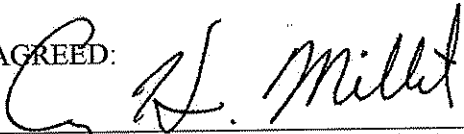
Order from any entity; provided however, to the extent that GD&C is obligated to return the Settlement Payment pursuant to a motion made pursuant to Paragraph 4 or 5 above, it shall not have the right to seek the payment of its fees and expenses based on the MRC/Marathon Plan from HRC, TownCo, MRC and or Marathon, or any affiliates of HRC, TownCo, MRC, or Marathon. In any event, HRC and MRC agree not to object to any motion by GD&C to obtain the payment of its fees and expenses from any party *other than* HRC, TownCo, MRC and Marathon, or any affiliates of HRC, TownCo, MRC, or Marathon.

7. The prevailing party in any motion filed by HRC or the MRC/Marathon Plan Proponents to recover all or any portion of the Settlement Payment shall be entitled to the recover from the non-prevailing party the actual value of the attorneys' fees and costs incurred in making or opposing the motion.

8. Any dispute, action or proceeding arising out of or relating to this Agreement or the Settlement Payment shall be within the exclusive jurisdiction of the Bankruptcy Court.

9. If the Settlement Payment is made before the deadline set forth in paragraph 1, but before: (x) the Bankruptcy Court enters this Order on this Stipulation; and (y) this Order on this Stipulation is not entered by the Court before 3 p.m. PST, January 2, 2009, then GD&C shall immediately return the Settlement Payment and this Agreement shall automatically become null and void in its entirety.

AGREED TO THIS 30th DAY OF DECEMBER, 2008.

AGREED: 

Craig H. Millet (a Partner of the Firm)
GIBSON, DUNN & CRUTCHER LLP
Orange County Office
3161 Michelson Drive
Irvine, CA 92612-4412
(949) 451-3986 direct dial

(949) 475-4651 direct fax
(949) 231-9925 cell
cmillet@gibsondunn.com

FOR GIBSON, DUNN & CRUTCHER LLP

-- and --

Brian D Hail by NP Holzer with permission
/s/ Brian D. Hail

Brian D. Hail
GOODWIN PROCTER LLP
620 Eighth Avenue
New York, NY 10018-1405
Tel.: (212) 813-8800
Fax: (212) 355-3333
E-mail: bhail@goodwinprocter.com
COUNSEL TO HUMBOLDT REDWOOD COMPANY, LLC

SO ORDERED December 30, 2008



RICHARD S. SCHMIDT
UNITED STATES BANKRUPTCY JUDGE