

North Earth

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Can bad get any worse? Pacific Lumber is about to be felled due to their orchestrated bankruptcy cut and run. Pacific Lumber's apocalyptic plan to remain in control of the forest by selling off their timberland as rural real estate looks unlikely. Mendocino Redwood Company (MRC) seems primed for a take over and promises to reduce the cut and not cut ancient trees. Sierra Pacific Industry (SPI) has entered the bidding-war for control over the mill in Scotia that was previously run by Pacific Lumber in an attempt to expand their profitable war against nature. If SPI outbids MRC the forest will be DOA. Besides these contenders there is also the bondholders' quest for a scary forest auction money grab involving a bondholder billionaire, the Harvard endowment, and others vying to tip the outcome of the greatest chunk of redwoods in the world.

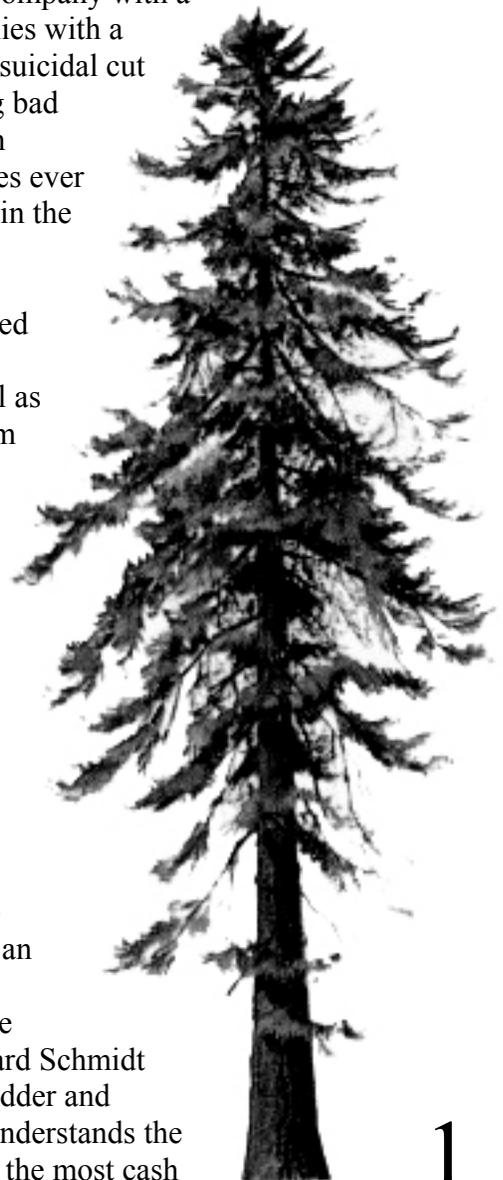


Sierra Pacific Industry (SPI) presence in the timber industry "has closed at least nine mills in California just since 1990" according to Scott Greacen of EPIC in his Times-Standard article in July. These cut and run kings currently own more land than any other entity in California and continues to buy new property every year. Sierra Pacific Industry uses antiquated techniques such as clear-cutting and rural sprawl that are obviously environmentally injurious in order to achieve short-term profits. The company then uses this cashola to buy more property and continue the same cycle, inevitably ending in Sierra Pacific Industry closing down mills to move on to something new. These practices cause more destruction to our forests than alternatives now labeled as

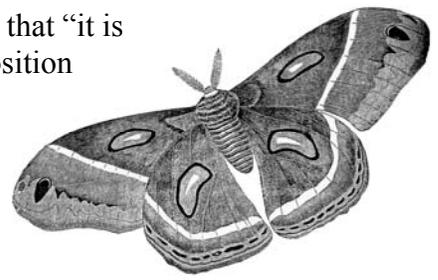
sustainable forestry and are detrimental to the communities that a company with a longer vision can create. Pacific Lumber was one of those companies with a long-term outlook that has been forced into bankruptcy due to the suicidal cut rate after Maxxam took them over. Cut and run is the tip of the big bad iceberg for SPI. Last year Sierra Pacific Industry was fined thirteen million dollars for air quality violations, "one of the largest penalties ever levied by the California Air Resources Board", said Scott Greacen in the July Times-Standard article.

There were essentially three players in the game being played over these forests until Sierra Pacific jumped in: the Fishers, a billionaire family who own Mendocino Redwood Company as well as the Gap retail clothing store, a man named Andy Beal, and Maxxam Inc.'s owner Charles Hurwitz. Kelly Zito details them in her April 30th SF Chronicle article as "the Fishers, billionaire San Francisco philanthropists; Andy Beal, a Texas banker who is also a high-stakes poker champion; and Pacific Lumber's parent firm Maxxam Inc., whose management of the forest land has been a lightning rod for environmental demonstrations since corporate raider Charles Hurwitz bought out the company in 1986." Many environmentalists believe the best solution to this problem that has been proposed thus far is the one proposed by Mendocino Redwood Company backed by Marathon Asset Management.

Judge Richard Schmidt has been residing over this case for nearly two years now and he's been making it clear that he'd like to see this drawn-out battle for ownership of these redwoods come to an end as soon as possible. Schmidt was quoted in a Times-Standard article in July that he told attorneys he was holding their "feet to the fire." Writer Loren Steffy noted that "it is unusual that Judge Richard Schmidt didn't simply allow bondholders to sell timberland to the highest bidder and recover the money they're owed," clearly indicating that Schmidt understands the importance of this decision reaches far beyond who can simply lay the most cash



down on the table. Times-Standard Writer John Driscoll wrote in May that “it is unclear how or when Schmidt may rule, Palco's precarious financial position does not appear to be lost on him. After more than 15 months in court, he seems resolved to wrap up the case soon.” SPI’s decision to throw themselves in the mix the other day undoubtedly added to Schmidt's frustrations... hopefully he won't let that allow him to change his mind about not allowing bondholders to simply have a fire sale.

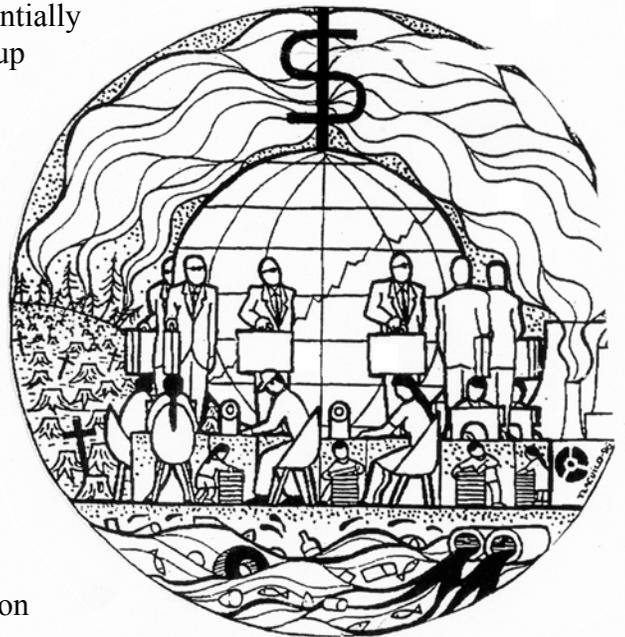


Writer David McLaughlin wrote in the Dow Jones Newswires in May that “bondholders, whose notes are secured by the timberlands, oppose the Marathon plan because it doesn't pay them the full amount of what they're owed, about \$740 million as of January 2007. They're calling for an auction of the land.” If such an auction happened, Neal Wolf, a lawyer for an unnamed bidder, said his client “owns more than 1.3 million acres of timberland in four states and is preparing an offer of up to \$590 million for the Pacific Lumber tract,” reported McLaughlin. Another premature bidder in this ghost auction was

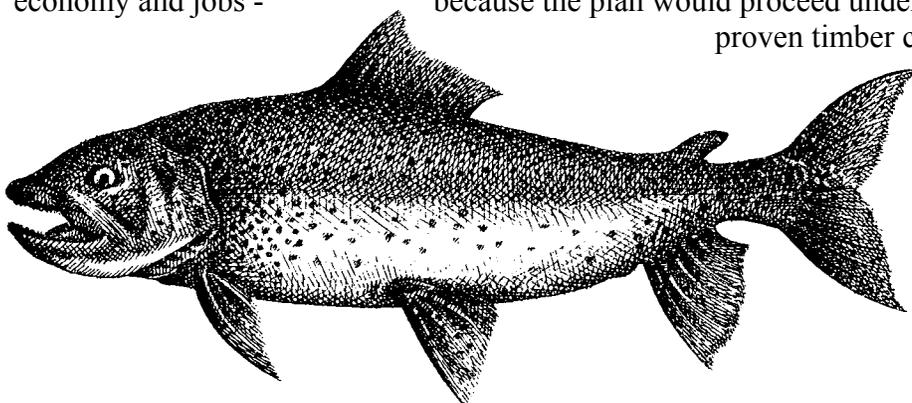


Harvard University's endowment who said it is “interested in buying more than 200,000 acres of timberlands in California as part of a plan to take over logging company Pacific Lumber Co. and bring it out of bankruptcy.” This report from the Associated Press in May stated that Harvard, the Country’s largest university endowment, would “top the price offered by hedge fund Marathon Asset Management,” the folks teamed up with MRC. Harvard removed their offer when Marathon upped their offer to \$ 530 million, all cash. In April the Times-Standard reported “Attorney Bill Greendyke with Bank of New York, representing the noteholders, said a company called Scotia Redwood Foundation has made a

hard offer of \$603 million, substantially more than what Marathon is willing to put up for the land... Scotia Redwood Foundation is a company formed by billionaire investor Andy Beal, who owns more of the timber bonds than anyone else.” John Driscoll, writer for the Times-Standard, wrote that the attempted noteholder coup led by Beal seeks to “glorify a liquidation scheme” and that they “don't have standing to do what they want to do.”



Kelly Zito’s SF Chronicle article continues that “David Simpson, an environmentalist and longtime Pacific Lumber observer... said the Mendocino plan might present the best shot at economic viability and assurances to the community.” Conversely, as of April, our Republican Governor of California Arnold Schwarzenegger agreed that the “MRC/ Marathon Plan, subject to the resolution of any remaining bankruptcy-specific issues raised by the California State Agencies, appears to offer the best chance for a reorganized company that is positioned for long-term success, while at the same time enhancing the environment and protecting the local economy.” This is a quote from his statement of support for the Mendocino Redwood Company/ Marathon plan issued in April. Schwarzenegger even goes so far as to lay out five specific reasons why the Mendocino Resource Company/ Marathon plan is superior to the others in both the federal and state government's eyes. Most importantly he recognizes that the plan is in “compliance with federal and state laws, permits and agreements - because it makes concrete pledges to abide by all environmental laws, existing permits and agreements”, something that Sierra Pacific Industry has had problems with for as long as anyone can remember. He also states that “The MRC/ Marathon Plan best satisfies the fourth principle - minimizing adverse impacts on the local economy and jobs -

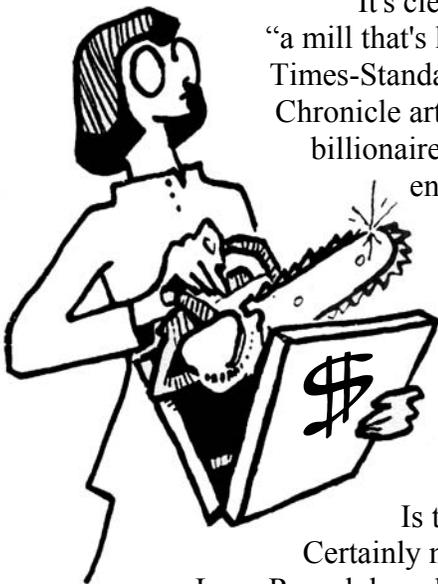


because the plan would proceed under the stewardship of a viable, proven timber company that will keep the local mill operating on a long-term basis, and maintain most of the local timber-related jobs and pensions in the long-term.” The Mendocino Redwood Company/ Marathon plan “offers \$500

million for the company and the promise to keep the Scotia sawmill running - albeit with a workforce of about 250, down from more than 350 now” said Kelly Zito in her April 30th SF Chronicle article. The general consensus amongst everyone from environmentalists to Schwarzenegger seems to be that sustainable forestry is necessary in order to secure the safety of our forests as well as the jobs of those who make their living in this industry.



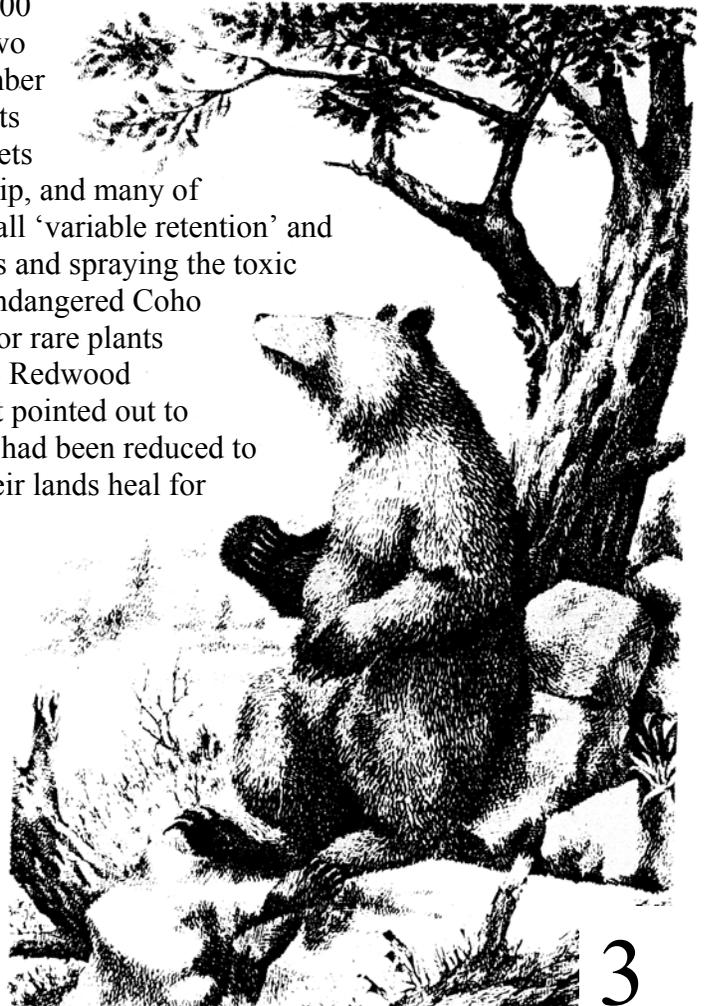
One wild card in this transfer of power is a lawsuit in the State Supreme Court by EPIC and the Sierra Club against Pacific Lumber. Staff writer Mike Geniella reported in the Press Democrat in May that allegations in the case contend that “now-bankrupt Pacific Lumber Co. duped state regulators into agreeing to less stringent logging rules for 210,000 acres of company timberlands in Humboldt County... Two weeks ago, Supreme Court justices refused to hear Gallegos' appeal of the dismissal of his... similar... civil fraud charges against Pacific Lumber.”

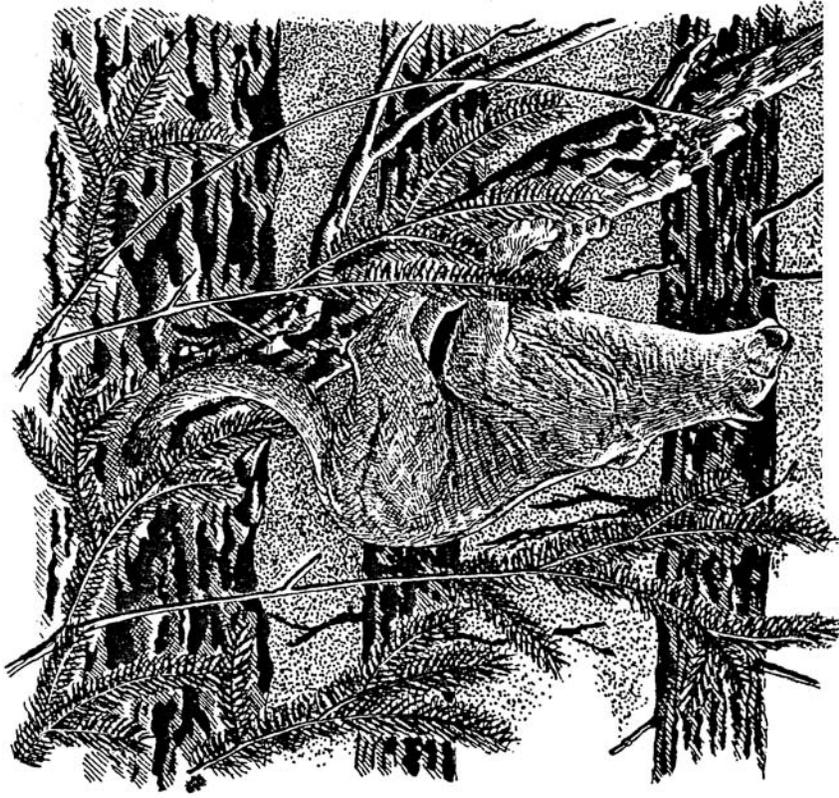


It's clear that sustainable forestry is the best answer thus far to the problem of “a mill that's losing \$2 million a month” according to John Driscoll's April 18th Times-Standard article. Writer Loren Steffy wrote in her June 12th Houston Chronicle article that “environmentalists favor the plan because MRC, owned by the billionaire Fisher family that founded the Gap retail chain, has a history of favoring enviro-friendly logging practices.” MRC is a private company so it does not have to use a short-term profit model to provide quarterly numbers to investors. Besides sparing all old growth, MRC submitted a plan to also reduce the rate of cut. It is also preferable that MRC are Californians. In June, Paul Mason with the Sierra Club wrote in a press release that they “look forward to working with a company that has a much stronger track record of responsible management than its predecessor.”

Is this the end of direct action on forestry issues in Humboldt County? Certainly not. Even if MRC wins, consider MRC's record in Mendocino County.

Lang Russel, board member of the Mendocino Environmental Center had this experience: “The most imaginative of our county's new timberland owners is Mendocino Redwood Company (MRC), which a little over two years ago purchased the Mendocino and Sonoma County holdings of Louisiana Pacific Corporation (LP). LP had hacked its forests down to a pitiful 8,000 bf/ acre. ...MRC is cutting at a rate of 40 million board feet per year on their 234,000 acres, which they call ‘sustainable.’ ... In its first two years of ownership, the company filed 1/3 more timber harvest plans (THP's) than LP in the final years of its tenure; they are bearing down hard on the last pockets of old growth and other large trees in their ownership, and many of their THP's involve clearcutting (which they now call ‘variable retention’ and ‘group selection’), logging on steep, unstable slopes and spraying the toxic herbicide Garlon....they have suppressed data on endangered Coho salmon, and they have refused to conduct surveys for rare plants within their logging plans. Shortly after Mendocino Redwood arrived on the scene, a respected forestry economist pointed out to company president Sandy Dean that MRC's forests had been reduced to ‘inventory collapse’ and urged them to either let their lands heal for at least 20-30 years, or to reduce their rate of cut. Along with allowing the forests to recover, these remedies would insure much greater long-term profits for MRC and more jobs for local timber workers. Dean said that they could do neither, because his company has a \$120 million debt to service. When the economist reminded Dean that the Fishers are multi-billionaires and suggested that they could simply pay off their debt, he said ‘they could, but that they didn't want to.’” MRC may be our best choice of an owner, but we ourselves are responsible for the outcome of our forests.





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