



ENTERED
07/08/2008

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

IN RE:	§	Related Docket No. 2902
	§	
SCOTIA DEVELOPMENT LLC,	§	JOINTLY ADMINISTERED
ET AL,	§	Case No. 07-20027-C-11
Debtors.	§	Chapter 11
	§	

**JUDGMENT AND ORDER (I) CONFIRMING FIRST
AMENDED JOINT PLAN OF REORGANIZATION FOR THE DEBTORS,
AS FURTHER MODIFIED, WITH TECHNICAL AMENDMENTS,
PROPOSED BY MENDOCINO REDWOOD COMPANY, LLC,
MARATHON STRUCTURED FINANCE FUND L.P. AND
OFFICIAL COMMITTEE OF UNSECURED CREDITORS,
(II) DENYING CONFIRMATION OF INDENTURE TRUSTEE PLAN,
(III) DENYING MOTION TO APPOINT CHAPTER 11 TRUSTEE**

On April 8, 9, 10, 11, 29, 30, May 1, 2 and 15, 2008, the Court conducted a hearing (the “Confirmation Hearing”) on (i) confirmation of the MRC/Marathon Plan (as defined below), and (ii) consideration of *The Indenture Trustee’s Motion to Appoint a Chapter 11 Trustee Pursuant to Section 1104 of the Bankruptcy Code* [Docket No. 2092] (the “Motion to Appoint Chapter 11 Trustee”).¹

On June 20, July 1 and July 2, 2008, the Court conducted a hearing (the “507(b) Hearing”) on consideration of (i) the *Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B)* [Docket No. 2814], as amended by *Indenture Trustee’s Amended Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B)* [Docket No. 3254], (ii) *Brief in Support of the*

¹ Capitalized terms used and not otherwise defined in this Order shall have the meanings ascribed to them in the Disclosure Statement and MRC/Marathon Plan. Notwithstanding the foregoing, if there is any inconsistency between any defined term in the Disclosure Statement and MRC/Marathon Plan, the definition in the MRC/Marathon Plan shall control.

Indenture Trustee's Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant To Section 507(B) [Docket No. 3211], (iii) *Notice of Filing of Brief Summarizing Evidence Presented At Hearing on The Indenture Trustee's Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B) Under Seal* [Docket No. 3275], and (iv) *The Indenture Trustee's Post-Trial Legal Brief in Support of Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B), as Amended (Relates To Docket Numbers 2814 and 3254)* [Docket No. 3277], each filed against Scotia Pacific Company, LLC (collectively, the "507(b) Motion").

On July 8, 2008, the Court conducted a hearing (the "Supplemental Confirmation Order Hearing") on consideration of (i) *The Indenture Trustee's Supplemental Objection to (1) Form of Confirmation Order and (2) Entry of Confirmation Order and Request for Hearing [Relates to Dkt. No. 3171]* [Docket No. 3247], and (ii) the *Second Supplement to The Indenture Trustee's Objection to (1) Form of Confirmation Order and (2) Entry of Confirmation Order, and Request for Further Relief* [Docket No. 3278] (collectively, the "Supplemental Confirmation Order Objections").

Appearances were made as reflected in the record of the Confirmation Hearing, the 507(b) Hearing and the Supplemental Confirmation Order Hearing. The Court has reviewed and considered, among other things, the following:

1. *The Order Terminating Exclusivity and Establishing Dates for Filing of Plans of Reorganization and Disclosure Statements, and Related Hearing Dates on January 4, 2008* [Docket No. 2004] (the "Exclusivity Termination Order");
2. *The First Amended Joint Plan of Reorganization for the Debtors, as Further Modified, With Technical Amendments, Proposed by Mendocino Redwood*

Company, LLC, Marathon Structured Finance Fund L.P., and the Official Committee of Unsecured Creditors Dated July 8, 2008 [Docket No. 3300], (modifying the First Amended Joint Plan of Reorganization for the Debtors, as Further Modified, Proposed by Mendocino Redwood Company, LLC, Marathon Structured Finance Fund L.P., and the Official Committee of Unsecured Creditors [Docket No. 2902] in accordance with the Court's Findings of Fact and Conclusions of Law (as defined below), the “MRC/Marathon Plan”);

3. *The Plan Proponents’ Third Amended Joint Plan of Reorganization for the Debtors Under Chapter 11 of the United States Bankruptcy Code [Docket No. 2507] proposed by the Debtors, MAXXAM Inc., MAXXAM Group Holdings Inc., and MAXXAM Group Inc.(collectively, the “MAXXAM Entities”) (the “Debtors’ Joint Plan”);*
4. *The First Alternative Plan of Reorganization for the Palco Debtors Under Chapter 11 of the United States Bankruptcy Code [Docket No. 2209] proposed by the Debtors and the MAXXAM Entities (the “Palco Alternative Plan”);*
5. *The Plan Proponents’ First Alternative Plan of Reorganization for Scotia Pacific Company LLC Under Chapter 11 of the United States Bankruptcy Code [Docket No. 2502] proposed by the Debtors, MAXXAM Inc., MAXXAM Group Holdings Inc., and MAXXAM Group Inc. (as may be further amended, supplemented or otherwise modified from time to time, the “Scopac Alternative Plan”);*
6. *The Notice of Withdrawal of (I) The Palco Alternative Plan of Reorganization, (II) The Scopac Alternative Plan of Reorganization and (III) The Debtors' Joint*

Plan of Reorganization filed by the Debtors and the MAXXAM Entities dated May 7, 2008 [Docket No. 2846];

7. *The First Amended Chapter 11 Plan for Scotia Pacific Company LLC Proposed by The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes (as Modified April 28, 2008)* [Docket No. 2774] (as may be further amended, supplemented or otherwise modified from time to time, the “Indenture Trustee Plan”);
8. *The Indenture Trustee's Expedited Motion to Deem Additional Modifications to Indenture Trustee Plan Non-Material* [Docket No. 2815];
9. *The Joint Disclosure Statement in Support of the Respective Plans of Reorganization Proposed By (1) Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.; (2) The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes; and (3) the Debtors and MAXXAM Inc., MAXXAM Group Holdings Inc., and MAXXAM Group Inc.* [Docket No. 2401] (the “Disclosure Statement”);
10. The Court Order setting deadline for Class 6 (Scopac Timber Note Secured Claims) under the MRC/Marathon Plan to elect the application of section 1111(b)(2) of the Bankruptcy Code prior to March 2, 2008 set forth on Docket No. 2376;
11. The Order *(i) Approving Joint Solicitation Procedures and Joint Disclosure Statement in Support of the Respective Plans of Reorganization Proposed By (1) Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.; (2) The Bank of New York Trust Company, N.A., Indenture Trustee for the*

- Timber Notes; and (3) the Debtors and Maxxam Inc., Maxxam Group Holdings Inc., and Maxxam Group Inc. [Docket No. 2387] (the “Disclosure and Solicitation Order”);*
12. *The Notice of (I) Confirmation Hearing and Objection Deadline With Respect To The Plan Proponents’ Plans, and (II) Solicitation and Voting Procedures served March 6, 2008 (the “Confirmation Hearing Notice”);*
 13. *The Disclosure and Solicitation Order, and the affidavits of service thereof [Docket Nos. 2516, 2517, 2518, 2519 and 2520];*
 14. *The Plan Supplement to First Amended Joint Plan of Reorganization for the Debtors Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P. [Docket No. 2476] (the “MRC/Marathon Plan Supplement”);*
 15. *The First Plan Supplement to First Amended Chapter 11 Plan for Scotia Pacific Company LLC Proposed by The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes (as modified) [Docket No. 2475] (the “Indenture Trustee Plan Supplement”);*
 16. *The Notice of Filing of Plan Supplements [Docket No. 2476];*
 17. *The Notice of Nomination of Litigation Trustee Pursuant to First Amended Joint Plan of Reorganization for the Debtors Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P. [Docket No. 2549] (the “Notice of Litigation Trustee”);*
 18. *The Notice of Designation of Litigation Trust Board under First Amended Joint Plan of Reorganization for the Debtors Proposed by Mendocino Redwood*

Company, LLC and Marathon Structured Finance Fund L.P. [Docket No. 2627]
(the “Notice of Litigation Trust Board”);

19. *The Declaration of Kathleen M. Logan Certifying Voting On, and Tabulation of, Ballots Accepting and Rejecting the Respective Plans of Reorganization Proposed by (1) Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.; (2) The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes; and (3) the Debtors and Maxxam Inc., Maxxam Group Holdings Inc., and Maxxam Group Inc.* [Docket No. 2581] (the “Ballot Tabulation”);
20. *The Memorandum of Law of Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P (A) in Support of Confirmation of Their First Amended Joint Plan of Reorganization for the Debtors and (B) in Opposition to Confirmation of Competing Plans* [Docket No. 2610];
21. *The Statement of the Official Unsecured Creditors’ Committee in Support of the Plan of Reorganization Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P., and Objections to the Various Plans Proposed by the Debtors, MAXXAM, and the Indenture Trustee* [Docket No.2606];
22. *The Limited Objection of CNA Insurance Companies to First Amended Joint Plan of Reorganization for the Debtors Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund, L.P.* [Docket No. 2537] (the “CNA Insurance Objection”);

23. *The Objection to the Plan of Reorganization Proposed by Mendocino Redwood Company and Marathon Structured Finance by Secured Creditor County of Humboldt, California* [Docket 2608] (the “Humboldt County Objection”)
24. *The California State Agencies’ Statement of Support for MRC/Marathon Plan and Comments on and Limited Objections to Confirmation of Plans* [Docket No. 2609] (the “California State Agencies’ Objection”);
25. *The Debtors’ Joint Objection to Confirmation of the First Amended Joint Plan of Reorganization for the Debtors Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.* [Docket 2612] (the “Debtors’ Objection”);
26. *The Indenture Trustee’s Objection to the Confirmation of the First Amended Joint Plan of Reorganization for the Debtors Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.* [Docket No. 2614] (the “Indenture Trustee Objection”);
27. *The Motion to Appoint Chapter 11 Trustee;*
28. Scotia Pacific Company LLC and The Pacific Lumber Company's (1) Opposition to the Indenture Trustee's Motion for Expedited Discovery; (2) Motion to Continue the Motion for the Appointment of a Chapter 11 Trustee; and (3) Motion for Scheduling Order dated January 21, 2008 [Docket No. 2161];
29. *The Objection of The Official Unsecured Creditors’ Committee to Debtors’ Proposed Order on Discovery, Pre-Hearing and Hearing Procedures and Schedule as to (1) Approval of Disclosure Statement, (2) Plan Confirmation and*

- (3) *Motion To Appoint a Chapter 11 Trustee* dated February 4, 2008 [Docket No. 2246];
30. *Scotia Pacific Company LLC's Opposition to The Indenture Trustee's Motion to Appoint a Chapter 11 Trustee Pursuant to Section 1104 of the Bankruptcy Code [Related To Docket No. 2092]* [Docket No. 2899];
31. *The Motion by Palco Debtors to Approve Global Settlement Pursuant to Fed. R. Bank. P. 9019* dated May 5, 2008 [Docket No. 2834] (the "Settlement Motion");
32. *The Indenture Trustee's Objection to the Motion by Palco Debtors to Approve Global Settlement Pursuant to Fed. R. Bankr. P. 9019* [Docket No. 2889];
33. *The Post-Trial Statement of Pension Benefit Guaranty Corporation Regarding Confirmation of a Plan of Reorganization* [Docket No. 2879];
34. *The California State Agencies' Closing Trial Brief Regarding Confirmation of Plans* [Docket No. 2881];
35. *Scotia Pacific Company, LLC's Post-Trial Brief Concerning Confirmation of Competing Plans [Related to Docket Nos. 2774 & 2800]* [Docket No. 2886];
36. *The Post-Trial Statement of the Official Unsecured Creditors' Committee Regarding Confirmation of a Plan of Reorganization* [Docket No. 2887];
37. *The Joint Post-Confirmation Hearing Memorandum of Law Submitted By MRC, Marathon, the Committee, Palco and Maxxam (A) In Support of Confirmation of the MRC/Marathon Plan; (B) In Opposition to Confirmation of the Indenture Trustee Plan; and (C) In Opposition to the Motion to Appoint a Trustee* [Docket No. 2896];
38. *The Indenture Trustee's Post-Trial Brief* [Docket No. 2890];

39. *Babson Capital Management LLC's Statement in Support of the First Amended Chapter 11 Plan for Scotia Pacific Company LLC Proposed by The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes and Joinder to The Indenture Trustee's Objection to the Confirmation of the First Amended Joint Plan of Reorganization for the Debtors Proposed by Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.* [Docket No. 2898];
40. *The Comment of Bank of America, N.A. Regarding Plans of Reorganization* [Docket No. 2893];
41. *The Joint Supplemental Memorandum of Law of MRC, Marathon, the Committee, Palco, and Maxxam in Support of Confirmation of the MRC/Marathon Plan* [Docket No. 3058];
42. *The Indenture Trustee's Post-Trial Brief Regarding Impairment Under 11 U.S.C. § 1124* [Docket No. 3059];
43. The 507(b) Motion;
44. *The Joint Objection to the Motion of The Bank of New York Trust Company, N.A., as Indenture Trustee, For a Superpriority Administrative Expense Claim Pursuant to Section 507(B)* Filed by Marathon Structured Finance Fund LP, Mendocino Redwood Company, LLC, Official Unsecured Creditors' Committee [Docket No. 2907];
45. *Scopac's Response to Indenture Trustee's Motion for Section 507(B) Superpriority Claim [Docket #2814]* [Docket No. 2971];
46. *Notice of Hearing [Relates To DKT. NO. 2814]* Filed by The Bank of New York Trust Company, N.A. [Docket No. 3001];

47. *The Indenture Trustee's Emergency Motion for Continuance of the June 13, 2008 Hearing on The Indenture Trustee's Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B)* [Docket No. 3096];
48. *Motion for Emergency Hearing Regarding Discovery Issues Regarding [Doc #2814] The Indenture Trustee's Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B) and Contemplated Motion for Stay Pending Appeal* [Docket No. 3109];
49. *Preliminary Response of Bank of America, N.A. to Indenture Trustee's Motion for Section 507(B) Superpriority Claim [Docket 2814] [Docket No. 3186];*
50. *Joint Supplemental Objection of Mendocino Redwood Company, LLC, Marathon Structured Finance Fund L.P. and The Official Committee of Unsecured Creditors In Opposition to the Motion of the Indenture Trustee for a Superpriority Administrative Expense Claim Pursuant to Section 507(B) of the Bankruptcy Code* [Docket No. 3214];
51. *Supplemental Objection of Bank of America, N.A., to Motion to Grant Indenture Trustee's Superpriority Administrative Expense Claim Pursuant to Section 507(b) [Docket 2814] [Docket No. 3245];*
52. *Joinder of the California State Agencies in Oppositions to the Motion and Amended Motion of The Bank Of New York Trust Company, N.A., as Indenture Trustee, for a Superpriority Administrative Expense Claim Pursuant to Section 507(B) [Docket No. 2814] [Docket No. 3271];*

53. *Certain Noteholders' (1) Joinder In the Indenture Trustee's Post-Trial Brief in Support of Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B), as Amended ("Section 507(B) Motion"); and (2) Supplement in Support of Section 507(B) Motion* [Docket No. 3280];
54. *The Proposed Findings of Fact and Conclusions of Law Relating to the Indenture Trustee's Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B)* [Docket No. 3281];
55. *The Proposed Findings of Fact and Conclusions of Law Regarding Denial of the Motion of the Indenture Trustee for a Superpriority Administrative Expense Claim Pursuant to Section 507(B) of the Bankruptcy Code* [Docket No. 3282];
56. *The Limited Reply of Bank of America, N.A., to the Indenture Trustee's Post-Trial Brief in Support of the Motion to Grant Indenture Trustee a Superpriority Administrative Expense Claim Pursuant to Section 507(B)* [Docket 2814, 3254, 3277] [Docket No. 3290];
57. *The Motion of Marathon Structured Finance Fund L.P. and Mendocino Redwood Company, LLC to Compel The Indenture Trustee to Disgorge Attorneys Fees and Expenses or Offset Them Against any Allowed Superpriority Claim* [Docket No. 3123] (the "Disgorgement Motion");
58. *The Palco Debtors' Joinder in [Doc #3123] Motion of Marathon Structured Finance Fund L.P. and Mendocino Redwood Company, LLC, to Compel the Indenture Trustee to Disgorge Attorneys Fees and Expenses or Offset Them Against any Superpriority Claim* [Docket No. 3131];

59. *The Joinder of the Official Unsecured Creditors' Committee in Support of the Motion of Marathon Structured Finance Fund L.P. and Mendocino Redwood Company, LLC to Compel the Indenture Trustee to Disgorge Attorneys Fees and Expenses or Offset Them Against Any Allowed Superpriority Claim* [Docket No. 3137];
60. *The Joinder of Bank of America, N.A. to Motion of Marathon Structured Finance Fund L.P. and Mendocino Redwood Company, LLC to Compel The Indenture Trustee to Disgorge Attorneys Fees and Expenses or Offset them Against aAny Allowed Superpriority Claim* [Docket 3123] [Docket No. 3188]
61. The Supplemental Confirmation Order Objections;
62. All evidence at the Confirmation Hearing, the 507(b) Hearing, and the Supplemental Confirmation Order Hearing, including live testimony, testimony by proffer and exhibits, as well as representations and arguments of counsel; and
63. All other documents and pleadings comprising the record of the Reorganization Cases.

**FINDINGS OF FACT AND CONCLUSIONS OF LAW
IN SUPPORT OF CONFIRMATION OF MRC/MARATHON PLAN,
DENIAL OF CONFIRMATION OF INDENTURE TRUSTEE PLAN**

On June 6, 2008, this Court entered its Findings of Fact and Conclusions of Law Regarding (A) Confirmation of the MRC/Marathon Plan; (B) Denial of Confirmation of Indenture Trustee Plan and (C) Denial of the Motion to Appoint a Chapter 11 Trustee [Docket No. 3088]. On July 7, 2008, this Court announced its Findings of Fact and Conclusions of Law regarding the 507(b) Motion on the record in open Court and those are incorporated by reference herein. On July 8, 2008, this Court announced its ruling on the record regarding the

Supplemental Confirmation Order Objections. All of the aforementioned, referred to herein as the Findings of Fact and Conclusions of Law are hereby incorporated herein by reference.²

JUDGMENT AND ORDER

Based upon the review and consideration of the foregoing, based on the all of the evidence introduced and proceedings held at the Confirmation Hearing, the objections to confirmation of the MRC/Marathon Plan, all of the proceedings and pleadings filed in the above-referenced chapter 11 Reorganization Cases (the "Reorganization Cases") since their commencement, and the Findings of Fact and Conclusions of Law, and after due deliberation thereon, the Court makes and issues the following Judgment and Order:

NOW, THEREFORE, BASED UPON ALL OF THE FOREGOING, IT HEREBY IS ADJUDGED, DECREED AND ORDERED THAT:

1. Confirmation of the MRC/Marathon Plan. The MRC/Marathon Plan is approved and confirmed in all respects pursuant to section 1129 of the Bankruptcy Code. The terms of each of the documents referred to in the MRC/Marathon Plan, all exhibits and addenda thereto, the MRC/Marathon Plan Supplement (including the documents contained therein), the Notice of Litigation Trustee, and the Notice of Litigation Trust Board are approved, incorporated by reference into, and are an integral part of the MRC/Marathon Plan and this Order. The MRC/Marathon Plan shall be effective, binding and enforceable in accordance with its terms as of the Effective Date. Notwithstanding the foregoing, if there is any inconsistency between the

² Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052. Further, the Court's findings of fact and conclusions of law announced on the record in open court are incorporated by reference herein.

terms of the MRC/Marathon Plan and the terms of this Order, the terms of this Order shall control.

2. Objections to MRC/Marathon Plan Overruled. All objections raised with respect to the MRC/Marathon Plan, including without limitation in any memorandum of law in support of the Indenture Trustee Plan or other previously filed competing plan, prior to and at the Confirmation Hearing and all reservations of rights included therein, that have not been withdrawn, waived or resolved, are overruled on the merits.

3. Confirmation Denied as to Indenture Trustee Plan. The Court denies confirmation of the Indenture Trustee Plan. Other than certain plans that were filed and previously withdrawn, no plan other than the MRC/Marathon Plan and the Indenture Trustee Plan was authorized to be filed in these Reorganization Cases, and any other plan is hereby stricken and voided.

4. Motion to Appoint Chapter 11 Trustee Denied. The Court denies *The Indenture Trustee's Motion to Appoint a Chapter 11 Trustee Pursuant to Section 1104 of the Bankruptcy Code* [Docket No. 2092].

5. Motion for 507(b) Superpriority Administrative Claim Was Denied and Disgorgement Motion Moot. The Court, based on the findings of fact and conclusions of law noted on the record in open court, denied the 507(b) Motion and finds that the Indenture Trustee does not have a 507(b) superpriority administrative claim as a result of the confirmation of the MRC/Marathon Plan. Accordingly, the Court denied in a separate order the *Motion of Marathon Structured Finance Fund L.P. and Mendocino Redwood Company, LLC to Compel The Indenture Trustee to Disgorge Attorneys Fees and Expenses or Offset Them Against any Allowed Superpriority Claim* [Docket No. 3123].

6. Provisions of MRC/Marathon Plan and Confirmation Order Nonseverable and Mutually Dependent. The provisions of the MRC/Marathon Plan and this Order, including the findings of fact and conclusions of law set forth herein (and in the Findings of Fact and Conclusions of Law), are non-severable and mutually dependent.

7. Record Closed. The record of the Confirmation Hearing, the 507(b) Hearing and the Supplemental Confirmation Order Hearing is closed.

8. Notice. Good and sufficient notice of the Confirmation Hearing, the 507(b) Hearing, the Supplemental Confirmation Order Hearing, the deadline for filing and serving objections to the MRC/Marathon Plan, cure claim estimates, injunctions and third party releases, bar dates, and other hearings described in the Disclosure and Solicitation Order and the MRC/Marathon Plan, which notice has been and is hereby approved, have been provided.

9. Binding Effect and Validity. Pursuant to section 1141(a) of the Bankruptcy Code, on the Effective Date, the provisions of the MRC/Marathon Plan and this Order shall bind the Debtors, the Estates, The Bank of New York Trust Company, N.A. as Indenture Trustee for the Scopac Timber Notes, the Committee, the PLC Litigation Trust, the SPC Litigation Trust, the PLC Litigation Trustee, the SPC Litigation Trustee, MAXXAM Inc., MAXXAM Group Holdings, Inc., MAXXAM Group Inc., the MRC/Marathon Plan Proponents, and all Holders of Claims against and Interests in the Debtors, including their heirs, successors, assigns, trustees, executors, administrators, affiliates, officers, directors, agents, representatives, attorneys, beneficiaries, or guardians whether or not the Claims or Interests of these entities are impaired under the MRC/Marathon Plan, whether or not these entities have voted to accept or reject the MRC/Marathon Plan, and whether or not these entities have filed proofs of Claim or proofs of

Interest in the Reorganization Cases. Each term and provision of the MRC/Marathon Plan, as it may be interpreted in accordance with the MRC/Marathon Plan, is valid and enforceable.

10. Appointment of Litigation Trust Boards. Miles T. Crail (Pacific Coast Trading, Inc.), Steve Will (Steve Wills Trucking), and Kenneth “Jeff” Nelson (SHN Consulting Engineers & Geologists) are appointed to serve on the PLC Litigation Trust Board. The SPC Litigation Trust Board shall be appointed as provided in the MRC/Marathon Plan, including without limitation, Section 8.7.2 of the MRC/Marathon Plan.

11. Appointment of Litigation Trustee. Julianne Viadro, President of Hickey & Hill, Inc., is appointed to serve as the PLC Litigation Trustee. The SPC Litigation Trustee shall be appointed as provided in the MRC/Marathon Plan, including without limitation, Section 8.6.2 of the MRC/Marathon Plan.

12. Matters Relating to Implementation of the MRC/Marathon Plan.

(a) Means for Implementation of the MRC/Marathon Plan. Upon confirmation of the MRC/Marathon Plan, in accordance with this Order, the Debtors, the Estates, the Reorganized Entities, the Plan Proponents, the PLC Litigation Trust, the SPC Litigation Trust, the PLC Litigation Trust Board, the SPC Litigation Trust Board, the PLC Litigation Trustee and the SPC Litigation Trustee, as the case may be, are authorized and directed to take all necessary or appropriate steps, and perform all necessary or appropriate acts, to consummate the terms and conditions of the MRC/Marathon Plan. In addition to the provisions set forth elsewhere in the MRC/Marathon Plan, the following shall constitute the means for implementation of the MRC/Marathon Plan.

(b) Effectuating Documents. Each of the Debtors, the Plan Proponents, the Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee, as the case may

be, is authorized and directed to execute and deliver, adopt, assign, or amend, as the case may be, any and all agreements, documents and instruments and take any and all actions necessary or desirable to implement the MRC/Marathon Plan and this Order and to effect any other transactions contemplated therein or thereby, including without limitation the Restructuring Transactions and the Exit Financing. To effectuate the MRC/Marathon Plan and such transactions, the officers or responsible representatives of the Debtors, the Plan Proponents, the Reorganized Entities, the PLC Litigation Trust and the SPC Litigation Trust (including without limitation the PLC Litigation Trustee and the SPC Litigation Trustee) are authorized and directed – without further notice or application to or order of the Court – to execute, deliver, file, or record such agreements or documents, and to take such other actions as any such individual may determine to be necessary or desirable to effectuate the MRC/Marathon Plan, this Order, and such transactions, regardless of whether such actions or documents are specifically referred to in the MRC/Marathon Plan or this Order. Without limiting the foregoing, the Debtors are authorized and directed to execute all deeds, bills of sale, assignments of general intangibles, title company affidavits respecting parties in possession and mechanics liens, FIRPTA certificates and California Forms 593-C as requested by any of the Plan Proponents. To the extent that, under applicable non bankruptcy law, any of these actions otherwise would require the consent or approval of the shareholders or boards of directors of the Debtors, this Order constitutes such consent, approval and direction. On the Effective Date, all documents and all other agreements entered into issued pursuant to the MRC/Marathon Plan, including but not limited to any documents entered into in connection with the Exit Financing facility (including, but not limited to, the credit agreement, guarantee agreements, pledge and security agreement, mortgages and deeds of trust, UCC financing statements and assignment of MFP Distribution PPPD (as defined

below), and deposit account control agreements, if any, collectively, the “Exit Financing Documents”), shall become effective, binding, and enforceable upon the parties thereto in accordance with their respective terms and conditions and shall be deemed to become effective simultaneously. The provisions of Bankruptcy Rule 7070 are specifically made applicable for such a situation and may be used in an appropriate situation.

(c) Approval and Effectiveness of Reorganization of the Debtors. Entry of this Order shall constitute approval of the reorganization of the Debtors, as of the Effective Date, including without limitation pursuant to the Restructuring Transactions described below, into two newly formed Reorganized Entities, Newco (now known as Humboldt Redwood Company LLC) and Townco (now known as Town of Scotia Company, LLC), and, except as otherwise set forth in this Order and in the MRC/Marathon Plan, all of the Debtors’ Assets (other than PLC Litigation Trust Assets and SPC Litigation Trust Assets) shall be transferred to these Reorganized Entities, upon the occurrence of the Effective Date, free and clear of all Claims, Liens, charges, other encumbrances and Interests other than those preserved in the MRC/Marathon Plan, including, but not limited to, (i) that certain Deed of Trust dated July 20, 1998, as amended, in favor of State Street Bank and Trust Company and recorded July 17, 1998 as Instrument No. 1998-18657-212 of Humboldt County Official Records, (ii) that certain Deed of Trust dated July 18, 2006, in favor of Marathon Structured Finance Fund L.P. and recorded July 18, 2006 as Instrument No. 2006-20965-77 of Humboldt County Official Records, (iii) that certain Deed of Trust dated July 18, 2006, in favor of Marathon Structured Finance Fund L.P. and recorded July 18, 2006 as Instrument No. 2006-20966-28 of Humboldt County Official Records, (iv) that certain Deed of Trust dated July 18, 2006, in favor of Marathon Structured Finance Fund L.P. and recorded July 18, 2006 as Instrument No. 2006-20967-29 of Humboldt

County Official Records, (v) that certain Deed of Trust dated July 18, 2006, in favor of Marathon Structured Finance Fund L.P. and recorded July 18, 2006 as Instrument No. 2006-20968-78 of Humboldt County Official Records, (vi) that certain Deed of Trust dated July 18, 2006, in favor of Marathon Structured Finance Fund L.P. and recorded July 18, 2006 as Instrument No. 2006-20969-29 of Humboldt County Official Records and (vii) that certain Deed of Trust dated July 18, 2006, in favor of Marathon Structured Finance Fund L.P. and recorded July 18, 2006 as Instrument No. 2006-20970-30 in Official Records; *provided, however*, that notwithstanding anything to the contrary in the foregoing Paragraph of this Order or the MRC/Marathon Plan including without limitation Section 7.6.2, the Mill, headquarters and sales buildings shall first vest in Townco pending satisfaction of California state subdivision laws and subsequently such Assets shall be transferred to Newco free and clear of all Claims, Interests, liens, encumbrances, and interests unless the liens or encumbrances were designated to be retained under the MRC/Marathon Plan.

(d) Operation of the Debtors Between the Confirmation Date and the Effective Date. The Debtors shall continue to operate as debtors in possession in the ordinary course, consistent with past practice, subject to the supervision of the Court and pursuant to the Bankruptcy Code and the Bankruptcy Rules during the period from the Confirmation Date through and until the Effective Date.

(e) Operation of the Reorganized Entities. On and after the Effective Date, the Reorganized Entities may operate their businesses, may use, acquire and dispose of property, may retain, compensate and pay any professionals or advisors, and compromise or settle any causes of action, claims or interests without supervision of or approval by the Bankruptcy Court

and free and clear of any restrictions of the Bankruptcy Code or the Bankruptcy Rules other than restrictions expressly imposed by this Order and the MRC/Marathon Plan.

(f) Restructuring Transactions. The Restructuring Transactions, including without limitation any Additional Transactions, contemplated by Article 7.6 of the MRC/Marathon Plan are approved, subject to the occurrence of the Effective Date, and the Debtors and Reorganized Entities and their officers are authorized to take such actions as may be necessary and appropriate to effectuate the relevant Restructuring Transactions, including, without limitation, executing such documents as may be reasonably required in order to effectuate the Restructuring Transactions, including but not limited to, the Exit Financing Documents. On and after the Effective Date, the MRC/Marathon Plan Proponents and the Reorganized Entities may undertake transactions as may be necessary or appropriate under the circumstances. Such transactions may include one or more mergers, sales, consolidations, restructurings, acquisitions, dispositions, liquidations or dissolutions, as may be determined by the MRC/Marathon Plan Proponents or the Reorganized Entities. The actions to effect these Restructuring Transactions may include: (a) the execution and delivery of appropriate agreements or other documents of merger, sale, consolidation, restructuring, disposition, liquidation or dissolution containing terms that are consistent with the terms of the MRC/Marathon Plan and that satisfy the applicable requirements of applicable state law and such other terms to which the applicable entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, duty or obligation on terms consistent with the terms of the MRC/Marathon Plan and having such other terms to which the applicable entities may agree; (c) the filing of appropriate certificates or articles of merger, consolidation, incorporation, formation or

dissolution pursuant to applicable state law; and (d) all other actions that the applicable entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable state law. Each and every federal, state, and local governmental agency or department is hereby directed to accept for filing and recording any and all documents and instruments necessary or appropriate to consummate the transactions contemplated by the Restructuring Transactions, including, but not limited to, the Exit Financing Documents.

(g) Exit Financing Liens. The Exit Financing liens will be secured by first priority perfected liens on the assets of the Exit Financing Parties (as defined herein). Specifically, the Exit Financing liens will be secured by first priority perfected liens on all existing Timberlands and certain personal property (tangible and intangible) of Newco (the "Borrower") and all existing and future subsidiaries of the Borrower (the "Guarantors", and together with Newco, the "Exit Financing Parties"), including without limitation all accounts receivable, inventory, intellectual property, all severed timber, logs, wood, forest products, contract rights, log sale agreements and stumpage agreements, cash (including control agreements upon request), a pledge of the equity interests of the Borrower, each Guarantor and their respective subsidiaries and an assignment for security purposes of the agreement with MRC and Mendocino Forest Products Company, LLC in form and substance satisfactory to American AgCredit, PCA (the "Lender")(the "MFP Distribution PPPD"), subject to such customary exceptions as may be agreed upon (the "Collateral"). The security interests and liens granted pursuant to, or in connection with, the Exit Financing (and all documents, instruments and agreements related thereto and annexes, exhibits and schedules appended thereto) shall constitute, as of the Effective Date, legal, valid and duly perfected first priority liens and security interests in and to the Collateral specified therein, subject only, where applicable, to the pre-

existing liens and security interests specified or permitted in the Exit Financing or the documents, instruments or agreements contemplated thereby. On the Effective Date, all of the liens and security interests to be created under, or in connection with, the Exit Financing liens shall be deemed created and shall be valid and perfected and shall afford to the secured party all remedies for default customarily granted to the holder of such security interest including, without limitation, a private power of sale and right to nonjudicial foreclosure, without any requirement of filing or recording of financing statements, mortgages or other evidence of such liens and security interests and without any approvals or consents from governmental entities or any other persons and regardless of whether or not there are any errors, deficiencies or omissions in any property descriptions attached to any filing and no further act shall be required for perfection of liens and security interests. Notwithstanding the foregoing, the parties granting such liens and security interests, are authorized to make all filings and recordings, and to obtain all governmental approvals and consents necessary to establish and perfect such liens and security interests under the provisions of state, provincial, federal, or other law (whether foreign or domestic) that would be applicable in the absence of this order, and will thereafter cooperate to make all other filings and recordings that otherwise would be necessary under applicable law to give notice of such liens and security interests to third parties. The Lender shall execute and record a quitclaim deed in favor of the Borrower and each of the Guarantors to remove such blanket security interests and liens upon the full and indefeasible payment and performance in full of the Exit Financing facility (and upon satisfaction of all other requirements customarily imposed as a condition to the release of all security interests and liens under a credit facility).

13. Litigation Trusts. Pursuant to the MRC/Marathon Plan (i) the PLC Litigation Trust shall be referred to as the "PLC Litigation Trust" but shall not include any of the following

words in its name: “Scotia Development”; “Pacific Lumber”; “Britt Lumber”; “Salmon Creek”; “Scotia Inn”; “Scotia Pacific”; “Palco”; or “Scopac”; and (ii) the SPC Litigation Trust shall be referred to as the “SPC Litigation Trust” but shall not include any of the following words in its name: “Scotia Development”; “Pacific Lumber”; “Britt Lumber”; “Salmon Creek”; “Scotia Inn”; “Scotia Pacific”; “Palco”; or “Scopac” On and after the Effective Date, all pleadings and other papers filed in the Reorganization Cases shall be captioned “In re: PLC Litigation Trust/SPC Litigation Trust.”

14. Treatment of Holders of Allowed Class 6 Claims. Holders of Allowed Scopac Timber Note Secured Claims, as of the Record Date, having failed to elect the application of section 1111(b)(2) of the Bankruptcy Code prior to the Agreed 1111(b) Election Deadline as required by section 1111(b) of the Bankruptcy Code and Bankruptcy Rule 3014, shall be provided, on the Distribution Date, in full satisfaction, release and discharge of and in exchange for such Claims, the treatment set forth in Sections 4.6.2.1 and 4.6.3 of the MRC/Marathon Plan, and shall not be provided the treatment set forth in Section 4.6.2.2 of the MRC/Marathon Plan. Notwithstanding anything to the contrary set forth in the MRC/Marathon Plan, including, without limitation, Section 4.6.2.1 of the MRC/Marathon Plan, the initial cash distribution not less than \$513.6 million to be paid to the Timber Note Indenture Trustee on account of the holder of Class 6 Allowed Scopac Timber Note Secured Claim, shall be paid on the effective date of the MRC/Marathon Plan.

15. Term of Bankruptcy Injunction or Stays. All injunctions or stays provided in, or in connection with, the Reorganization Cases, whether pursuant to section 105 of the Bankruptcy Code, section 362 of the Bankruptcy Code, or any other provision of the Bankruptcy Code, other applicable law or court order, in effect immediately prior to the Confirmation Date 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 Order, the MRC/Marathon Plan or by their own terms. In addition, on and after Confirmation Date, the MRC/Marathon Plan Proponents may seek further orders to preserve the status quo during the time between the Confirmation Date and the Effective Date.

16. Release of Liens. Except as otherwise expressly provided in this Order, the MRC/Marathon Plan, or in any contract, instrument, indenture or other agreement or document expressly incorporated by reference in the MRC/Marathon Plan, on the Effective Date all mortgages, deeds of trust, liens or other security interest against the property of the Debtors are fully released and discharged; *provided, however*, that this provision shall not prevent Liens from attaching to the Reorganized Entities' Assets as provided for by the MRC/Marathon Plan, including but not limited to, the Exit Financing liens or any liens otherwise necessary or appropriate to implement the MRC/Marathon Plan; *provided, further, however*, notwithstanding any other provision of this Order or the MRC/Marathon Plan to the contrary, Scopac's claims in the Headwaters Litigation and any proceeds thereof, shall continue to be subject to any lien of the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Secured Timber Note Claims, which lien shall remain in full force and effect.

17. Vesting of Assets in the Reorganized Entities and Litigation Trusts. Pursuant to section 1141(b) of the Bankruptcy Code, except as otherwise provided in the MRC/Marathon Plan or this Order, or in any contract, instrument, release or other agreement entered into or delivered in connection with the MRC/Marathon Plan, subject to any order of the Court that may be entered with respect to the Settlement Motion, on the Effective Date all Assets of the Estates shall vest in the Reorganized Entities, the PLC Litigation Trust and SPC Litigation Trust, as

applicable and as set forth in the MRC/Marathon Plan, including without limitation Sections 7.2, 7.6.2, 8.1 and 8.9 of the MRC/Marathon Plan, and, pursuant to section 1141 of the Bankruptcy Code, free and clear of all Claims, Interests, liens (excluding Exit Financing liens), encumbrances, and interests unless the liens or encumbrances were designated to be retained under the MRC/Marathon Plan; provided, however, that notwithstanding anything to the contrary in the foregoing Paragraph of this Order or the MRC/Marathon Plan including without limitation Section 7.6.2, the Mill, headquarters and sales buildings shall first vest in Townco pending satisfaction of California state subdivision laws and subsequently such Assets shall be transferred to Newco free and clear of all Claims, Interests, liens (excluding Exit Financing liens), encumbrances, and interests unless the liens or encumbrances were designated to be retained under the MRC/Marathon Plan. For the avoidance of doubt, to the extent any real property of the Debtors is discovered after the Effective Date, to the extent not previously transferred to and vested in Newco or Townco as appropriate, on the Effective Date, such real property shall be automatically transferred to and vest in Newco or Townco, as appropriate, in the same way they would have had such real property been identified as of the Effective Date.

18. Accounts.

(a) The Reorganized Entities and their officers are authorized, and the Debtors and their officers are authorized and directed, to take such actions as may be necessary and appropriate to transfer control of all of the Debtors' existing bank accounts (the "Accounts") in the names and with the account numbers to the Reorganized Entities, and any funds in any Account of the Debtors at any financial institution shall vest in the Reorganized Entities, as applicable, free and clear of all Claims, Interests, liens (excluding Exit Financing liens), encumbrances, and interests; and

(b) The Reorganized Entities shall be authorized, without further order of this or any other Court, to deposit funds in and withdraw any funds from such Accounts in the ordinary course, including, without limitation, by check, wire transfer, automated clearinghouse transfer (“ACH Transfer”), intra bank transfer, electronic funds transfer, and other debits; and

(c) The Accounts shall, for all purposes, be the accounts of the Reorganized Entities, and any financial institution at which the Debtors have an Account and/or funds on the Effective Date is hereby directed to accept from the Reorganized Entities any and all documents necessary or appropriate such transfers and instructions as are necessary and appropriate.

19. Vesting of Causes of Action. The Causes of Action shall be preserved and shall, on the Effective Date, vest in the Reorganized Entities and, as part of the PLC Litigation Trust Assets and SPC Litigation Trust Assets, as follows:

(a) *PLC Litigation Trust Assets.* On the Effective Date, subject to any order of the Court that may be entered with respect to the Settlement Motion, the following Causes of Action shall be immediately transferred, assigned and otherwise conveyed to the PLC Litigation Trust: Causes of Action of the Palco Debtors for money damages only, transferred, assigned and otherwise conveyed to the PLC Litigation Trust on the Effective Date; provided, however, for avoidance of doubt, PLC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; provided, further, however, PLC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with

respect to trade creditors of the Palco Debtors that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the PLC Litigation Trustee within ten (10) Business Days after the PLC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) the Debtors' claims in the Headwaters Litigation and the proceeds thereof; (vi) Causes of Action with respect to Environmental Obligations; (vii) Causes of Action of Scopac; (viii) the SPC Litigation Trust Assets; (ix) the PLC Funding Amount; and (x) the SPC Funding Amount.

(b) *SPC Litigation Trust Assets.* On the Effective Date, subject to any order of the Court that may be entered with respect to the Settlement Motion, the following Causes of Action shall be immediately transferred, assigned and otherwise conveyed to the SPC Litigation Trust: Causes of Action of Scopac for money damages only, subject to any liens retained pursuant to this Plan by the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims; *provided, however,* for avoidance of doubt, SPC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however,* SPC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section

547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the SPC Litigation Trustee within ten (10) Business Days after the SPC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of the Palco Debtors; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) Causes of Action with respect to Environmental Obligations; (vi) Causes of Action of the Palco Debtors, including their claims in the Headwaters Litigation, and the proceeds thereof; (vii) the PLC Litigation Trust Assets; (viii) the PLC Funding Amount; and (ix) the SPC Funding Amount. Notwithstanding anything to the contrary contained in the Plan or herein, the SPC Litigation Trust Assets shall include all of Scopac's claims in the Headwaters Litigation, which shall vest in the SPC Litigation Trust subject to any liens, claims and encumbrances (including, without limitation, the lien of the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims)

(c) The Causes of Action shall be prosecuted, managed, controlled, and/or settled, and/or residual transferred as provided in the MRC/Marathon Plan, including without limitation, Articles VII and VIII of the MRC/Marathon Plan.

20. Litigation Trust Funding.

(a) *PLC Litigation Trust Funding.* On the Effective Date, Newco shall fund or cause to be funded the PLC Funding Amount to the PLC Litigation Trust. The PLC Litigation

Trustee shall satisfy any fees and expenses of the PLC Litigation Trust with either the PLC Funding Amount and/or Cash proceeds of the PLC Litigation Trust Assets when and to the extent they are realized; *provided, however*, in no event shall any portion of that certain \$10.6 million to be provided by Newco to the PLC Litigation Trust on the Effective Date be utilized to satisfy any fees and expenses of the PLC Litigation Trust; *provided, further, however*, notwithstanding anything herein to the contrary, after payment of all amounts owing under the Plan to Holders of Allowed Claims classified in Classes 7 and 8 from the \$10.6 million provided by Newco to the PLC Litigation Trust on the Effective Date, up to \$500,000 of any such remaining funds may be utilized by the PLC Litigation Trustee to repay the PLC Funding Amount and the balance, if any, of such funds, shall not be utilized to satisfy any fees and expenses of the PLC Litigation Trust but shall be returned to those entities that provided such amounts. The PLC Litigation Trustee, in its discretion, shall hire counsel and such other professionals. Except as set forth in Sections 7.2(ii) and 8.9 of the MRC/Marathon Plan, the Debtors, the MRC/Marathon Plan Proponents, and the Reorganized Entities shall have no obligation (i) to provide any funds or other property or assets to the PLC Litigation Trust or to the SPC Litigation Trust, or (ii) to pay or reimburse any of the expenses the PLC Litigation Trust or the SPC Litigation Trust..

(b) *SPC Litigation Trust Funding*. On the Effective Date, the Timber Notes Indenture Trustee shall fund or cause to be funded the SPC Funding Amount to the SPC Litigation Trust. The SPC Litigation Trustee shall satisfy any fees and expenses of the SPC Litigation Trust with either the SPC Funding Amount and/or Cash proceeds of the SPC Litigation Trust Assets when and to the extent they are realized. The SPC Litigation Trustee, in its discretion, shall hire counsel and such other professionals. Except as set forth in Sections

7.2(ii) and 8.9.1 of the MRC/Marathon Plan, the MRC/Marathon Plan Proponents, and the Reorganized Entities shall have no obligation (i) to provide any funds or other property or assets to the PLC Litigation Trust or to the SPC Litigation Trust, or (ii) to pay or reimburse any of the expenses the PLC Litigation Trust or the SPC Litigation Trust.

21. Treatment Is In Full Satisfaction. Except as otherwise provided in the MRC/Marathon Plan, or agreed in writing and approved by the Court, effective as of the Effective Date, the treatment set forth in the MRC/Marathon Plan is in full and complete satisfaction of the legal, contractual, and equitable rights (including any liens) that each Entity holding a Claim or an Interest may have in or against the Debtors, the Estates, the Reorganized Entities, the MRC/Marathon Plan Proponents, the PLC Litigation Trust, the SPC Litigation Trust, the PLC Litigation Trustee, the SPC Litigation Trustee, or their respective property. This treatment supersedes and replaces any agreements or rights those Entities may have in or against the Debtors, the Estates, the Reorganized Entities, the MRC/Marathon Plan Proponents, the PLC Litigation Trust, the SPC Litigation Trust, the PLC Litigation Trustee, the SPC Litigation Trustee, or their respective property.

22. Cancellation of Interests. On the Effective Date, all Interests in the Debtors, including without limitation, the Interests in Class 12, will be cancelled, annulled, and extinguished and will be of no further force or effect, without any further action by any party. Entities holding Interests in the Debtors will retain no rights and receive no consideration on account of those Interests.

23. Discharge.

(a) Discharge of Claims Against the Debtors and the Reorganized Entities.

Pursuant to Section 10.1.1 of the MRC/Marathon Plan, and except as otherwise expressly

provided in the MRC/Marathon Plan (i.e. Section 2.5 of the MRC/Marathon Plan) or this Order and subject to any order of the Court that may be entered with respect to the Settlement Motion, this Order shall as of the Effective Date: (i) act to discharge the Debtors, the Reorganized Entities and any of their Assets from all Claims demands, liabilities, other debts and Interests that arose on or before the Effective Date, including, without limitation, 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 the MRC/Marathon Plan; and (ii) preclude all Persons from asserting against the Debtors, the Reorganized Entities or any of their Assets any other or further Claims or Interests based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date, all pursuant to sections 524 and 1141 of the Bankruptcy Code. This discharge 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.

(b) Injunction Related to the Discharge. Pursuant to Section 10.1.2 of the MRC/Marathon Plan, and except as otherwise expressly provided in the MRC/Marathon Plan (i.e. Section 2.5 of the MRC/Marathon Plan) or this Order, and subject to any order of the Court that may be entered with respect to the Settlement Motion, all entities that have held, currently hold, or may hold Claims or other debts or liabilities against the Debtors or an Interest or other right of an equity security Holder in any or all of the Debtors that are discharged pursuant to the terms of the MRC/Marathon 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 the MRC/Marathon Plan; (ii) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order against the Debtors, the Reorganized Entities or any of their Assets on account of any such Claim, debt, liability, Interest or right; (iii) creating, perfecting or enforcing any Lien or encumbrance against the Debtors, the Reorganized Entities or any of their Assets on account of any such Claim, debt, liability, Interest or right; (iv) asserting any right of setoff, subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtors, the Reorganized Entities 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 the MRC/Marathon Plan or this Order. Such injunction shall extend to any successor of the Debtors, the Reorganized Entities and any of their Assets. Any entity injured by a willful violation of such injunction may recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages from the willful violator.

24. Releases. The releases, waivers, preservations of rights of action and injunctions related to releases contained in Section 10.2 of the MRC/Marathon Plan are appropriate pursuant to section 1123(b) of the Bankruptcy Code, are approved, and shall be effective in accordance with their terms. Any and all entities specified therein are permanently enjoined thereunder from commencing or prosecuting, directly, derivatively or otherwise any claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or liabilities released or exculpated pursuant to these provisions and any other provisions of the MRC/Marathon Plan, including

claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or liabilities released under the MRC/Marathon Plan.

25. Exculpation. The exculpation contained in Section 10.3 of the MRC/Marathon Plan is appropriate, approved, and shall be effective in accordance with its terms. Pursuant to Section 10.3 of the MRC/Marathon Plan, among other things, none of (i) the Plan Proponents and their respective officers, directors, professionals, members, agents and employees, (ii) the Reorganized Entities and their respective officers, directors, professionals, members, agents and employees, and (iii) the Committee, its members and Professionals, shall 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 following: (a) the management or operation of the Debtors or the discharge of their duties under the Bankruptcy Code; (b) the implementation of any of the transactions provided for, or contemplated in, the MRC/Marathon Plan or the other Plan Documents; (c) 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; (d) any action taken in the negotiation, formulation, development, proposal, solicitation, disclosure, Confirmation, or implementation of the MRC/Marathon Plan or the other Plan Documents; or (e) the administration of the MRC/Marathon Plan or the assets and property to be distributed pursuant to the MRC/Marathon Plan.

26. No Liability for Solicitation or Participation. None of the Plan Proponents, the Reorganized Entities, the Administrative Agent and the lenders under the Term Loan Agreement, dated as of July 18, 2006, the Administrative Agent and the lenders under the Revolving Credit

Agreement, dated as of July 18, 2006, and the Administrative Agent and lenders under the Debtor-In-Possession Revolving Credit Agreement dated as of August 6, 2007, nor any of their respective current members, partners, officers, directors, employees, affiliates, agents and advisors (including any attorneys, financial advisors, investment bankers, accountants and other professionals retained by such Persons) shall have or incur any liability to any Holder of any Claim or Interest for any act or omission in connection with, or arising out of the MRC/Marathon Plan, the Reorganization Cases, the Disclosure Statement, the Palco DIP Loan, any Exit Financing, any agreements relating to the foregoing or with respect to the transactions contemplated hereunder or thereunder, the solicitation of votes for and the pursuit of the MRC/Marathon Plan, the consummation of the MRC/Marathon Plan or the administration of the MRC/Marathon Plan or the property to be distributed under the MRC/Marathon Plan, including, without limitation, all documents ancillary thereto, all decisions, actions, inactions and alleged negligence or misconduct relating thereto and all pre-petition activities leading to the promulgation and Confirmation of the MRC/Marathon Plan, except willful misconduct or gross negligence as determined by a Final Order of the Court. The foregoing parties shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the MRC/Marathon Plan.

27. No Successor Liability. Except as otherwise expressly provided in the MRC/Marathon Plan or this Order, none of the Released Parties shall be determined to be successors to any of the Debtors or to any Entity for which the Debtors or the Reorganized Entities may be held legally responsible, by reason of any theory of law or equity, and none can be responsible for any successor or transferee liability of any kind or character. The Released Parties shall not have any obligation, responsibility, or liability to perform, pay, or indemnify

creditors or otherwise have any responsibilities for any liabilities or obligations of the Debtors or the Reorganized Entities, whether arising before, on, or after the Confirmation Date, except as otherwise expressly provided in the MRC/Marathon Plan.

28. Executory Contracts and Unexpired Leases. The executory contract and unexpired lease provisions of Article VI of the MRC/Marathon Plan are approved. Except as otherwise provided in the MRC/Marathon Plan or pursuant to this Confirmation Order, on the Effective Date, all executory contracts and unexpired leases between the Debtors and any Person, including, but not limited to, all Intercompany Contracts, shall be rejected pursuant to section 365(a) of the Bankruptcy Code except for (a) any such contract or lease that has been assumed or rejected or renegotiated and either assumed or rejected on renegotiated terms, pursuant to an order of the Court entered prior to the Effective Date, or (b) any such contract or lease that is specifically treated otherwise in the MRC/Marathon Plan. Entry of the Confirmation Order shall constitute approval, pursuant to sections 365(a) and (f) of the Bankruptcy Code, of the rejection, assumption, and assumption and assignment of executory contracts and unexpired leases provided for herein, in the MRC/Marathon Plan and the MRC/Marathon Plan Supplement on the Effective Date; provided, however, that any Environmental Obligation shall be treated as indicated in Section 2.5 of the MRC/Marathon Plan and this Order shall not constitute a finding that any Environmental Obligation is an executory contract. The MRC/Marathon Plan Proponents and the Reorganized Entities shall have the right, at any time prior to the Effective Date, to amend the MRC/Marathon Plan Supplement to: (a) delete any Assumed Contract listed therein, thus providing for its rejection pursuant to the MRC/Marathon Plan; or (b) add any executory contract or unexpired lease thereto, thus providing for its treatment as an Assumed Contract pursuant to the MRC/Marathon Plan. The MRC/Marathon Plan Proponents or the

Reorganized Entities, as the case may be, shall provide notice of any such amendment to the MRC/Marathon Plan Supplement to the parties to the Assumed Contract affected thereby and to the parties on the then applicable service list in the Reorganization Cases. Each Assumed Contract listed in the MRC/Marathon Plan Supplement shall be assumed only to the extent that any such contract or lease constitutes an executory contract or unexpired lease that is subject to assumption or rejection pursuant to section 365 of the Bankruptcy Code. Listing a contract or lease in the MRC/Marathon Plan Supplement shall not constitute an admission by the Plan Proponents or the Reorganized Entities that such contract or lease constitutes an executory contract or unexpired lease that is subject to assumption or rejection pursuant to section 365 of the Bankruptcy Code or that the Plan Proponents or the Reorganized Entities have any liability thereunder. Each assumption, assumption and assignment, or rejection of an executory contract or unexpired lease under the MRC/Marathon Plan shall be legal, valid and binding upon the Reorganized Entities and all non-debtor parties to such executory contract or unexpired lease, all to the same extent as if the assumption, assumption and assignment, or rejection had been effectuated by appropriate authorizing order of the Court entered before the Effective Date pursuant to section 363 and/or section 365 of the Bankruptcy Code.

29. Assignments Related to the Restructuring Transactions. As of the effective time of an applicable Restructuring Transaction, any Assumed Contract (including any related agreement) to be held by any surviving, resulting or acquiring corporation in an applicable Restructuring Transaction, shall be deemed assumed by the Debtors and assigned to the applicable Reorganized Entity pursuant to sections 363 and 365 of the Bankruptcy Code and subject to the Exit Facility liens to the extent provided in connection with the Exit Financing Documents.

30. Bar Date for Claims Arising from Rejection of Executory Contracts and Unexpired Leases. If the rejection of an executory contract or unexpired lease by the Debtors (pursuant to the MRC/Marathon Plan or otherwise) results in a Claim, then such Claim shall be forever barred and shall not be enforceable against the Debtors and the Reorganized Entities unless a Proof of Claim is filed with the Balloting and Claims Agent and served upon counsel for the Debtors, counsel for the MRC/Marathon Plan Proponents, counsel for the Reorganized Entities, counsel for the PLC Litigation Trustee, and counsel for the SPC Litigation Trustee, as applicable, no later than thirty (30) days after the earlier of (i) the Effective Date, or (ii) entry of an order approving such rejection. All Claims arising from the rejection of executory contracts and unexpired leases shall be treated, to the extent they are Allowed Claims, as Allowed Class 7, 8 or 9 Claims, as appropriate, and shall be forever barred and shall not be enforceable against the Reorganized Entities.

31. Bar Date for Administrative Expense Claims. The Holder of an Administrative Expense Claim (other than an Administrative Expense Claim described in Articles 2.3 and 2.5 of the MRC/Marathon Plan or an Administrative Expense Claim arising from the Palco DIP Loan) shall file with the Bankruptcy Court and serve on the appropriate Debtor and the Plan Proponents a request for payment of such Claim no later than the Administrative Expense Claims Bar Date. Such request shall be by motion and shall include at a minimum (a) the name of the Debtor(s) purported to be liable for the Administrative Expense Claim, (b) the name of the Holder of the Administrative Expense Claim, (c) the amount of the Administrative Expense Claim and (d) the basis for the Administrative Expense Claim. Failure to file and serve such request timely and properly shall result in the Administrative Expense Claim being forever barred and discharged. Unless the Plan Proponents, the Debtors or the Reorganized Entities object 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 there is an objection 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 as of the entry of this Order.

32. Professional Compensation Claims. Notwithstanding any other provision of the MRC/Marathon 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 Plan Proponents or the Reorganized Entities (but in no event shall the payment exceed the amount Allowed by the Bankruptcy Court less all interim compensation paid to such Professional during the Reorganization Cases), 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.

33. Binding Effect of Plan. The provisions of Section 10.8 of the MRC/Marathon Plan setting forth the binding effect of the MRC/Marathon Plan upon the occurrence of the Effective Date are approved in their entirety and are in full force and effect.

34. Record Date For Claims Distributions. The Debtors, the Reorganized Entities, the PLC Litigation Trustee, the SPC Litigation Trustee and the Timber Notes Indenture Trustee shall have no obligation to recognize the transfer of, or the sale of any participation in, any Allowed Claim that occurs after February 25, 2008 (the "Record Date"), and shall be entitled for all purposes herein to recognize and distribute only to those holders of Allowed Claims who are holders of such Claims, or participants therein, as of the Record Date. The Debtors, the Reorganized Entities, the PLC Litigation Trustee, the SPC Litigation Trustee and the Timber Notes Indenture Trustee shall instead be entitled to recognize and deal for all purposes under the MRC/Marathon Plan with only those record holders stated on the official claims register or the transfer ledger, as the case may be, as of the Record Date. The transfer ledgers of the Timber Notes Indenture Trustee, or other agents and servicers shall be closed, and there shall be no further changes in the record holders of securities, as of the Record Date. The Debtors, the Reorganized Entities, the PLC Litigation Trustee, the SPC Litigation Trustee and the Timber Notes Indenture Trustee shall have no obligation to recognize any transfer of the Scopac Timber Note Secured Claims occurring after the Record Date. The Debtors, the Reorganized Entities, the PLC Litigation Trustee, the SPC Litigation Trustee, and the Timber Notes Indenture Trustee shall be entitled instead to recognize and deal for all purposes hereunder with only those record holders stated on the transfer ledgers as of the Record Date; provided, however, that with respect to deceased record holders, the Timber Notes Indenture Trustee shall be authorized, but not directed, to recognize transfers to the appropriate heir, executor, or otherwise, following

provision of notice together with such evidence of the transfer to the Timber Notes Indenture Trustee as is reasonably satisfactory to the Timber Notes Indenture Trustee. Such notice shall be effective only as to distributions due at least 60 days after such notice is accepted as satisfactory by the Timber Notes Indenture Trustee.

35. Dissolution of the Debtors' Corporate Entities. Pursuant to Section 7.9 the MRC/Marathon Plan, as soon as practicable after the Effective Date, the Reorganized Entities may take all actions necessary or appropriate to effect the dissolution of each of the Debtors under the appropriate state laws or take such other actions as the Reorganized Entities deem appropriate to provide for the revocation of the corporate charter for each of the Debtors. Furthermore, on the Effective Date, and without further action by any party: (A) the Debtors have no right to operate a business; and (B) the services of the Debtors' officers and directors automatically are terminated; other than, in each case, to the extent determined necessary by the Reorganized Entities, the PLC Litigation Trust and the SPC Litigation Trust to effectuate any Restructuring Transaction; provided, however, that notwithstanding the foregoing, the Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee shall have and retain such authority as set forth in the MRC/Marathon Plan, the PLC Litigation Trust Agreement and the SPC Litigation Trust Agreement to implement the MRC/Marathon Plan in accordance with its terms. The Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee are authorized to execute any documents that implement or facilitate the foregoing.

36. Dissolution of the Committee. Pursuant to Section 10.9 of the MRC/Marathon Plan, 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 applications for reimbursement of

reasonable fees and expenses of Committee Professionals and Committee members, and the Professionals retained by the Committee shall be entitled to reasonable compensation for services performed and reimbursement of reasonable expenses incurred in connection therewith. Upon dissolution of the Committee, the members of the Committee shall be released and discharged of and from all duties, responsibilities and obligations related to and arising from and in connection with the Reorganization Cases.

37. Environmental Obligations.

(a) Notwithstanding any provision in the Disclosure Statement, the MRC/Marathon Plan or this Order (as same may be amended from time to time) to the contrary, the Debtors, the Plan Proponents, the Reorganized Entities (Newco or Townco), or any other Entity shall comply, complete, perform, satisfy, and/or provide for satisfaction of any pre-petition, current, ongoing, executory, and future Environmental Obligation. Each Environmental Obligation shall be satisfied in full in the ordinary course of business at such time and in such manner as is required under applicable non-bankruptcy law. Each Environmental Obligation shall survive the Effective Date of the MRC/Marathon Plan as if the Reorganization Cases had not been commenced, shall not be discharged under section 1141(d) of the Bankruptcy Code, and shall not otherwise be adversely affected by the Reorganization Cases.

(b) Notwithstanding any provision in the Disclosure Statement, the MRC/Marathon Plan, or this Order to the contrary, nothing in the MRC/Marathon Plan or this Order authorizes any transfer of Covered Lands (as defined below) or permits prior to obtaining any applicable regulatory approval. "Covered Lands" shall mean any property covered by the Debtors' permits or the Habitat Conservation Plan and Implementation Agreement for the Habitat Conservation Plan.

(c) Notwithstanding anything in the Disclosure Statement, the MRC/Marathon Plan or this Order to the contrary, any disputes involving the Environmental Obligations, regulatory approval of any transfers of property contemplated by the MRC/Marathon Plan, or the amendment or issuance of any environmental permit shall be resolved in the appropriate non-bankruptcy forum. Paragraph 12.2 of the MRC/Marathon Plan shall not apply to any Environmental Obligations.

(d) The State and Federal Wildlife Agencies' interest in that certain Certificate of Deposit issued by Bank of America in an amount of at least \$2,509,580 shall not be impaired or adversely affected in any way by either the confirmation of the MRC/Marathon Plan or the Reorganization Cases.

(e) Notwithstanding any provision in the Disclosure Statement, the MRC/Marathon Plan, or this Order to the contrary, the confirmation of the MRC/Marathon Plan does not affect the rights of the defendants in the Headwaters Litigation to enforce any order issued by the court in the Headwaters Litigation against the Debtors, the Reorganized Entities, the Timber Notes Indenture Trustee on behalf of the Timber Noteholders, or the SPC Litigation Trust.

(f) Notwithstanding the listing of certain Environmental Obligations in the MRC/Marathon Plan Supplement as "executory contracts," the confirmation of the MRC/Marathon Plan shall not constitute a finding that any Environmental Obligation is an executory contract.

(g) The MRC/Marathon Plan proponents, or any one of them, are authorized to submit all requests, applications or agreements for all regulatory approvals required to implement the MRC/Marathon Plan, which submissions shall be deemed executed by and an

agreement of the Debtors to the extent such signatures or agreements are required to comply with applicable non-bankruptcy law to effectuate and complete the transfers contemplated by the MRC/Marathon Plan.

38. Exemption from Certain Transfer Taxes. Pursuant to section 1146(a) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under the MRC/Marathon 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 the MRC/Marathon Plan, including, but not limited to, any of the Exit Financing Documents, shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax. The preceding applies, without limitation, to the Restructuring Transactions (and the Mill, headquarters and sales buildings first vesting in Townco pending satisfaction of California state subdivision laws and the subsequent transfer of such Assets to Newco). All governmental officials and agents shall forego the assessment and collection of any such tax or governmental assessment and shall accept for filing and recordation any of the foregoing instruments or other documents without payment of such tax or other governmental assessment.

39. Exemption from Certain Registration Requirements. The provisions of section 1145 of the Bankruptcy Code are applicable to the offering, issuance and Distribution of any securities contemplated by the MRC/Marathon Plan on account of Allowed Claims and Section 4(2) of the Securities Exchange Act is applicable to distributions to the Plan Proponents that are made in exchange for the Plan Proponents' other cash investments. Therefore, to the extent that an "offer or sale" is deemed to have occurred with respect to the above, any such securities 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 the MRC/Marathon Plan on account of Allowed Claims 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.

40. MRC/Marathon Plan Amendments.

(a) The MRC/Marathon Plan as altered, amended and otherwise modified by the MRC/Marathon Plan Proponents pursuant to this Court's Findings of Fact and Conclusions of Law conforms with section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019, and satisfies the requirements of sections 1122 and 1123 of the Bankruptcy Code. The circumstances warrant such technical alterations, amendments and modifications and the Bankruptcy Court, after notice and hearings (including without limitation, the Confirmation Hearing and Supplemental Confirmation Order Hearing), confirms the MRC/Marathon Plan, as technically altered, amended and modified, pursuant to section 1129 of the Bankruptcy Code. The MRC/Marathon Plan, as technically altered, amended and modified, shall be binding on all holders of Claims and Interests under the MRC/Marathon Plan. The technical alterations, amendments and modifications set forth in the MRC/Marathon Plan do not materially and adversely change the treatment of the Claim or Interest of such Holder.

(b) The MRC/Marathon Plan may be further altered, amended or modified by the MRC/Marathon Plan Proponents with the consent of the Committee prior to its dissolution, and thereafter, the PLC Litigation Trustee and the SPC Litigation Trustee, which consent shall not be unreasonably withheld, at any time after the Confirmation Date in conformity with section 1127 of the Bankruptcy Code, and subject to any order of the Court that may be entered with

respect to the Settlement Motion; provided that the MRC/Marathon Plan, as altered, amended or modified, satisfies the requirements of sections 1122 and 1123 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the MRC/Marathon Plan, as altered, amended or modified, pursuant to section 1129 of the Bankruptcy Code and the circumstances warrant such alterations, amendments or modifications. The MRC/Marathon Plan, as altered, amended or modified, will be binding on all holders of Claims and Interests under the MRC/Marathon Plan as long as the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim or Interest of such holder.

41. Other Amendments. Prior to the Effective Date, the MRC/Marathon Plan Proponents may make additional appropriate non-material, technical adjustments and modifications to the MRC/Marathon Plan without further order or approval of the Bankruptcy Court subject to any order of the Court that may be entered with respect to the Settlement Motion.

42. Pension Plan. Pursuant to Section 6.5 of the MRC/Marathon Plan, on the Effective Date, the Reorganized Entities shall be deemed to have assumed the Debtors' Pension Plan and shall continue to satisfy the minimum funding standards pursuant to 26 U.S.C. §§ 412 and 430 (as applicable) and 29 U.S.C. § 1082, and administer the Debtors' Pension Plan in accordance with its terms and the provisions of Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. §§ 1001 - 1461 (2000 & Supp. V 2005). No provision of the MRC/Marathon Plan, this Order, or section 1141 of the Bankruptcy Code shall be construed as discharging, releasing or relieving the Debtors or the Debtors' successors, or any other party, including the Reorganized Entities, in any capacity from liability with respect to such pension plans under any law or regulatory provision with respect to the Debtors' Pension Plan or the Pension Benefit Guaranty Corporation (the "PBGC"). Neither the PBGC nor the Debtors'

Pension Plan are or will be enjoined from enforcing such liability as a result of the provisions of the MRC/Marathon Plan and this Order.

43. Compensation and Benefit Programs. Notwithstanding anything to the contrary in this Court's Findings of Fact and Conclusions of Law [Docket No. 3088] entered June 6, 2008, including without limitation paragraph "O" thereof, p. 110/119, as set forth in Section 6.7 of the MRC/Marathon Plan, except as otherwise set forth in Sections 6.5 and 6.6 of the MRC/Marathon Plan, to the extent provided in the MRC/Marathon Plan or in the Plan Supplement, all employment and severance agreements and policies, and all compensation and benefit plans, policies, and programs of the Debtors applicable to their employees, officers and directors including, without limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit agreements and plans, incentive plans, deferred compensation plans and life, accidental death and dismemberment insurance plans, shall be treated as executory contracts under the MRC/Marathon Plan, and on the Effective Date shall be deemed rejected pursuant to the provisions of sections 365 and 1123 of the Bankruptcy Code, except for executory contracts or employee benefit plans specifically assumed pursuant to the MRC/Marathon Plan or the Plan Supplement.

44. Resolution of Humboldt County Objection. The Humboldt County Objection has been resolved as set forth on the record of the Confirmation Hearing. With respect to the Secured Tax Claims of Humboldt County, the Plan Proponents agree that Humboldt County shall receive the treatment set forth in Section 4.2.2.1(i) of the MRC/Marathon Plan, providing for payment of Cash on the Distribution Date under the MRC/Marathon Plan in an amount equal to the unpaid portion of such Allowed Secured Tax Claim plus Post-petition Interest (at a rate to be determined under applicable non-bankruptcy law).

45. Resolution of CNA Insurance Objection. The CNA Insurance Objection has been resolved as set forth on the record of the Confirmation Hearing. Nothing in the MRC/Marathon Plan shall in any way impair or impact parties' rights and obligations, including without limitation, any rights to setoff or recoupment, under the insurance policies with respect to the workers' compensation programs described in Section 6.6 of the MRC/Marathon Plan.

46. Noticing after the MRC/Marathon Plan's Effective Date. Following the Effective Date, other than the Reorganized Entities, the MRC/Marathon Plan Proponents, the PLC Litigation Trustee, the SPC Litigation Trustee and the United States Trustee, who shall receive notices of all pleadings filed in the Reorganization Cases without any further action, all parties in interest who wish to receive, or continue to receive, notices of all pleadings filed in the Reorganization Cases must file a new request for special notice and serve it on the Reorganized Entities the PLC Litigation Trustee and the SPC Litigation Trustee and their counsel and the U.S. Trustee. The Reorganized Entities shall maintain and keep current the post-Effective Date special notice list, and make it available to all parties in interest upon written request. All pleadings, notices and other papers filed in the Reorganization Cases following the Effective Date (other than the notice of Effective Date) must be served on the parties on the post-Effective Date special notice list maintained by the Reorganized Entities.

47. Inconsistency. In the event of any inconsistency between the MRC/Marathon Plan and this Order, this Order shall govern.

48. Headings. Headings utilized herein are for convenience and reference only and shall not constitute a part of the MRC/Marathon Plan or this Order for any other purpose.

49. References To Plan Provisions. The MRC/Marathon Plan is confirmed in its entirety and hereby incorporated into this Order by reference. The failure to include or specifically

reference any particular provision of the MRC/Marathon Plan in this Confirmation Order shall have no effect on the validity, binding effect and enforceability of such provision, and each provision of the MRC/Marathon Plan shall have the same validity, binding effect and enforceability as if fully set forth in this Order.

50. Preclusive Effect. Any orders, findings of fact, or conclusions of law entered in connection with confirmation of the MRC/Marathon Plan are for purposes of only (i) confirmation of the MRC/Marathon Plan and (ii) the Reorganization Cases, and shall not have any preclusive effect on any governmental unit, party, or court in any other proceeding.

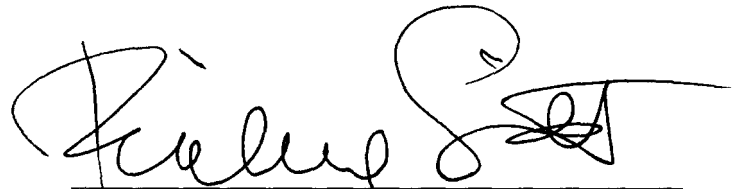
51. Retention of Jurisdiction. Other than as set forth herein with respect to Environmental Obligations, the Court shall retain jurisdiction as provided in Article XII of the MRC/Marathon Plan.

52. Notice of Effective Date. As soon as reasonably practicable, but in no event later than fifteen (15) days after the Effective Date, the PLC Litigation Trustee and the SPC Litigation Trustee shall serve a notice of Effective Date on all holders of Claims and Interests. The notice of Effective Date shall include notice that (i) the bar date for filing rejection damage Claims (or other Claims for damages) arising from the rejection under the MRC/Marathon Plan of executory contracts or unexpired leases shall be thirty (30) days after the mailing of such notice or the Effective Date, (ii) that the last day for filing requests for payment of Administrative Expense Claims pursuant to Section 2.2 of the MRC/Marathon Plan is the thirtieth (30th) day after the Effective Date, and (iii) that the last day for filing final applications or motions for professional fees and expenses pursuant to Section 2.3 of the MRC/Marathon Plan is sixty (60) days after the Effective Date.

53. Stay of Confirmation Order. This is a Final Order and shall be immediately effective upon entry. However, the effectiveness of this Order is hereby stayed for a period ten (10) days from the date of entry of this Order to allow parties a reasonable opportunity to seek an extension of such stay, *provided, however*, that any such stay is expressly conditioned upon the Indenture Trustee, filing (i) a notice of appeal and (ii) a motion for stay pending appeal, by no later than 5:00 p.m. Central Time on Wednesday, July 9, 2008. Any such motion(s) for stay pending appeal shall be heard and considered by this Court at 2:00 p.m. Central Time on July 10, 2008, along with any objection thereto or request to shorten the stay provided herein.

SO ORDERED.

Dated: July 8, 2008
Corpus Christi, Texas



THE HONORABLE RICHARD S. SCHMIDT
UNITED STATES BANKRUPTCY JUDGE

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

<p>IN RE:</p> <p>SCOTIA DEVELOPMENT LLC, THE PACIFIC LUMBER COMPANY, BRITT LUMBER CO., INC., SALMON CREEK LLC, SCOTIA INN INC., and SCOTIA PACIFIC COMPANY LLC,</p> <p align="center">DEBTORS.</p>	<p>Chapter 11 Case Nos. 07-20027 through 07-20032 (Jointly Administered)</p>
<p align="center">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. <u>AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS</u></p>	
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INTRODUCTION

Mendocino Redwood Company, LLC (and together with certain of its affiliates, "MRC"), Marathon Structured Finance Fund L.P. ("Marathon" and, together with MRC, the "MRC/ Marathon Plan Proponents") and the Official Committee of Unsecured Creditors (the "Committee", and together with the MRC/ Marathon Plan Proponents, the "Plan Proponents"), respectfully propose the following First Amended Joint Plan of Reorganization, as Further Modified, with Technical Modifications, pursuant to section 1121(a) of title 11 of the United States Code (the "Bankruptcy Code") for the resolution of outstanding Claims against and Interests in each of the Debtors.

Reference is made to the Disclosure Statement with respect to this Plan, distributed contemporaneously herewith, for a discussion of the Debtors' history, businesses, properties, operations, risk factors, a summary and analysis of this Plan and certain related matters including the securities to be issued under this Plan. Subject to certain restrictions and requirements set forth in section 1127 of the Bankruptcy Code and Fed. R. Bankr. P. 3019, the MRC/Marathon Plan Proponents respectfully reserve the right to alter, amend, modify, revoke or withdraw this Plan prior to consummation of this Plan; *provided* that as a result of any such modification, the Committee may, in its sole discretion, withdraw as a Plan Proponent.

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

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

1.1. Definitions. As used in this Plan, capitalized terms not otherwise defined herein shall have the meanings specified in Appendix A to MRC/Marathon First Amended Plan, as Further Modified, submitted contemporaneously herewith. Unless the context otherwise requires, any capitalized term used and not defined in this Plan, but that is defined in the Bankruptcy Code, shall have the meaning assigned to that term in the Bankruptcy Code.

1.2. Rules of Construction. For purposes of this Plan, unless otherwise provided herein: (a) any reference in this Plan to a contract, instrument, document, release, indenture or other agreement, whether existing or contemplated, being in a particular form or on particular terms and conditions means that such contract, instrument, document, release, indenture or other agreement shall be substantially in such form or substantially on such terms and conditions; (b) unless otherwise specified, all references in this Plan to the Introduction, Appendices, Articles, Sections, Schedules and Exhibits are references to the Introduction, Appendices, Articles, Sections, Schedules and Exhibits of or to this Plan; (c) captions and headings in this Plan are intended for convenience of reference only and are not intended to be part of or to affect interpretation of this Plan; (d) the words "herein," "hereof," "hereunder," "hereto" and other words of similar import refer to this Plan in its entirety rather than to a particular portion of this 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 Plan, unless otherwise expressly provided, Fed. R. Bankr. P. 9006(a) shall apply.

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

2.1. Administrative Expense Claims. On the later of (i) the Effective Date or (ii) the date on which an Administrative Expense Claim becomes Allowed, the Reorganized Entities 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 the MRC/Marathon Plan Proponents or the Reorganized Entities and such Holder shall have agreed upon in writing; provided, however that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (x).

2.2. Bar Date for Filing Administrative Expense Claims. The Holder of an Administrative Expense Claim (other than an Administrative Expense Claim described in Article 2.3. or an Administrative Expense Claim arising from the Palco DIP Loan) shall file with the Bankruptcy Court and serve on the appropriate Debtor and the MRC/Marathon Plan Proponents a request for payment of such Claim no later than the Administrative Expense Claims Bar Date. Such request shall be by motion and shall include at a minimum (a) the name of the Debtor(s) purported to be liable for the Administrative Expense Claim, (b) the name of the Holder of the Administrative Expense Claim, (c) the amount of the Administrative Expense Claim and (d) the basis for the Administrative Expense Claim. **Failure to file and serve such request timely and properly shall result in the Administrative Expense Claim being forever barred and discharged.** Unless the Plan Proponents, Debtors or the Reorganized Entities object 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 there is an objection 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 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 MRC/Marathon Plan Proponents or the Reorganized Entities (but in no event shall the payment exceed the amount Allowed by the Bankruptcy Court less all interim compensation paid to such Professional during the Reorganization Cases), 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.

2.4. Priority Tax Claims. Except to the extent that the MRC/Marathon Plan Proponents or the Reorganized Entities and a Holder of an Allowed Priority Tax Claim against a Debtor agree to a different treatment, each Holder of an Allowed Priority Tax Claim against a Debtor shall receive, at the sole option of the Reorganized Entities, as applicable, (a) on the Distribution Date, Cash in an amount equal to the unpaid portion of such Allowed Priority Tax Claim, or (b) commencing on the Distribution Date and continuing over a period not exceeding five (5) years from and after the Petition Date, equal semi-annual Cash payments commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date in an aggregate amount equal to the unpaid portion of such Allowed Priority Tax Claim, together with interest at the applicable rate under non-bankruptcy law, subject to the sole option of the Reorganized Entities, as applicable, to prepay the entire amount of the unpaid portion of Allowed Priority Tax Claim and in a manner not less favorable than the most favored nonpriority unsecured Claim provided for by the Plan. All Allowed Priority Tax Claims that are not due and payable on or before the Distribution Date shall be paid in the ordinary course of business as such obligations become due.

2.5. Treatment of Environmental Obligations. Notwithstanding any other provision in the Disclosure Statement or this Plan, as amended from time to time, the Debtors (including the Reorganized Entities, as of the Effective Date) shall comply, complete, perform, satisfy, and/or provide for satisfaction of any pre-petition, current, ongoing, executory, and future Environmental Obligations.

Each Environmental Obligation shall be satisfied in full in the ordinary course of business of the Debtors, or, as of the Effective Date, the Reorganized Entities, at such time and in such manner as the Debtors and the Reorganized Entities are obligated to satisfy such Environmental Obligation under applicable non-bankruptcy law.

Each Environmental Obligation shall survive the Effective Date of this Plan as if the Reorganization Cases had not been commenced, shall not be discharged under section 1141(d) of the Bankruptcy Code, and 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 (the "CC&Rs") which run with the land and remain binding on successors and assigns, and shall be senior in priority to all Liens provided in the Plan as to the land on which the CC&Rs affect.

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

III.

CLASSIFICATION OF CLAIMS AGAINST AND INTERESTS IN DEBTORS

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

3.2. Classes. The Claims against and Interests in the Debtors are classified as follows:

3.2.1. Class 1: Other Priority Claims.

3.2.2. Class 2: Secured Tax Claims and Other Secured Claims.

3.2.3. Class 3: Palco DIP Loan Claim.

3.2.4. Class 4: Palco Term Loan Claim.

3.2.5. Class 5: Scopac Loan Claims.

3.2.6. Class 6: Scopac Timber Note Secured Claims.

3.2.7. Class 7: Palco Trade Claims and Palco General Unsecured Claims.

3.2.8. Class 8: Scopac Trade Claims.

3.2.9. Class 9: Scopac General Unsecured Claims.

3.2.10. *Class 10:* Inter-Debtor Claims.

3.2.11. *Class 11:* Non-Debtor Affiliate Claims.

3.2.12. *Class 12:* Interests in the Debtors.

3.3. **Sub-classification of Certain Claims.** If the Bankruptcy Court authorizes the Debtors to consolidate for voting and distribution purposes fewer than all of the Classes of Claims sought to be consolidated for these purposes, pursuant to section 1122 of the Bankruptcy Code, the MRC/Marathon Plan Proponents may proceed with separate classifications for any such non-consolidated Classes. If the MRC/Marathon Plan Proponents elect to proceed with separate classifications for any such non-consolidated Classes of Claims and Interests, such Classes of Claims and Interests will be treated as against each individual non-consolidated Debtor for voting and distribution purposes. In such event, each Class of Claims and Interests shall be divided into subclasses; one for each of the Debtors, as set forth below.

PL - The Pacific Lumber Company
 BL - Britt Lumber Co., Inc.
 SC - Salmon Creek LLC
 SD - Scotia Development LLC
 SI - Scotia Inn Inc.
 SP - Scotia Pacific Company LLC

For example, Class 1 - "Other Priority Claims -- can be divided into six sub-classes for voting purposes: Class 1-PL, Class 1-BL ... through Class 1-SP. Class 1-PL relates to Other Priority Claims asserted against Palco, Class 1-BL relates to Other Priority Claims asserted against Britt, and so on. In some situations a particular Debtor may not have any claims asserted against it in a particular Class.

IV.

TREATMENT OF CLAIMS AND INTERESTS AND DESIGNATION WITH RESPECT TO IMPAIRMENT

4.1. Treatment of Class 1 - Other Priority Claims.

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

4.1.2. **Treatment.** On the Distribution Date, each Holder of an Allowed Other Priority Claim shall receive from the Reorganized Entities, 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 Other Priority Claim, plus Post-petition Interest, or (ii) such other treatment that the MRC/Marathon Plan Proponents or the Reorganized Entities 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 Class 2 – Secured Tax Claims and Other Secured Claims.

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

4.2.2. **Treatment.** On the Distribution Date, except to the extent that the MRC/Marathon Plan Proponents or the Reorganized Entities and a Holder of an Allowed Secured Tax Claim and Allowed Other Secured Claim, as applicable, agree to a different treatment,

4.2.2.1. each Holder of an Allowed Secured Tax Claim shall receive from the Reorganized Entities, as applicable, in full satisfaction, release and discharge of and in exchange for such Claim, at the sole option of the Reorganized Entities, as applicable, (i) payment of Cash in an amount equal to the unpaid portion of such Allowed Secured Tax Claim plus Post-petition Interest (at a rate to be determined under applicable non-bankruptcy law), or (ii) commencing on the Distribution Date and continuing over a period not exceeding five (5) years from and after the Petition Date, equal semi-annual Cash payments commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date in an aggregate amount equal to the unpaid portion of such Allowed Secured Tax Claim, together with interest at the applicable rate under non-bankruptcy law, subject to the sole option of the Reorganized Entities, as applicable, to prepay the entire amount of the unpaid portion of the Allowed Priority Tax Claim and in a manner not less favorable than the most favored nonpriority unsecured Claim provided for by the Plan; and

4.2.2.2. in full satisfaction, release and discharge of and in exchange for such Allowed Other Secured Claim, at the sole option of the Reorganized Entities, as applicable, (i) each Allowed Other Secured Claim shall be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable non-bankruptcy law that entitles the Holder of an Allowed Other Secured Claim to demand or receive payment of such Allowed Other Secured Claim prior to the stated maturity of such Allowed Other Secured Claim from and after the occurrence of a default, (ii) each Holder of an Allowed Other Secured Claim shall receive Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, or (iii) each Holder of an Allowed Other Secured Claim shall receive the Collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, in full and complete satisfaction of such Allowed Other Secured Claim.

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

4.3.1. Allowance of Claim, Impairment and Voting. The Palco DIP Loan Claim is Allowed in full in the approximate principal amount of \$75 million, plus interest, fees and other expenses, without offset, defense or counterclaim, and shall not be subject to objection, subordination, recharacterization, or any claim under chapter 5 of the Bankruptcy Code. Class 3 is impaired by this Plan. The Holder of the Allowed Palco DIP Loan Claim is entitled to vote to accept or reject this Plan.

4.3.2. Treatment. On the Effective Date, the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim shall be assigned to Newco, and in full satisfaction, release and discharge of and in exchange for both the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim and the contribution by Marathon described in Section 7.1 below, Marathon (1) shall receive 100% equity ownership interest of Townco, (2) shall receive a 15% equity ownership interest in Newco (subject to adjustment), and (3) shall receive a promissory note from Newco in the aggregate principal amount equal to the amount of the Mill Working Capital and secured solely by Liens on the Mill Working Capital.

4.4. Treatment of Class 4 – Palco Term Loan Claim.

4.4.1. Allowance of Claim, Impairment and Voting. The Palco Term Loan Claim is Allowed in full in the approximate principal amount of \$85 million, plus interest, fees and other expenses, without offset, defense or counterclaim, and shall not be subject to objection, subordination, recharacterization, or any claim under chapter 5 of the Bankruptcy Code. Class 4 is impaired by this Plan. Marathon, the Holder of the Allowed Palco Term Loan Claim is entitled to vote to accept or reject this Plan.

4.4.2. Treatment. On the Effective Date, the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim shall be assigned to Newco, and in full satisfaction, release and discharge of and in exchange for both the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim and the contribution by Marathon described in Section 7.1 below, Marathon (1) shall receive 100% equity

ownership interest of Townco, (2) shall receive a 15% equity ownership interest in Newco (subject to adjustment), and (3) shall receive a promissory note from Newco in the aggregate principal amount equal to the amount of the Mill Working Capital and secured solely by Liens on the Mill Working Capital.

4.5. Treatment of Class 5 – Scopac Loan Claim.

4.5.1. Impairment and Voting. The Scopac Loan Claim is Allowed in full in the approximate principal amount of \$37.6 million, plus interest, fees and other expenses, without offset, defense or counterclaim and shall not be subject to objection, subordination, recharacterization, or any claim under chapter 5 of the Bankruptcy Code. Class 5 is impaired by this Plan. Bank of America, the Holder of the Allowed Scopac Loan Claim is entitled to vote to accept or reject this Plan.

4.5.2. Treatment. On the Distribution Date, Bank of America, as Holder of the Allowed Scopac Loan Claim, shall receive from the Debtors in full satisfaction, release and discharge of and in exchange for such Claim, payment (i) as set forth in Section 7.6.2.(e) below, of Cash in an amount equal to the unpaid principal amount of such Scopac Loan Claim plus accrued but unpaid interest, fees and other expenses, at the applicable non-default rate of interest under the Scopac Loan, from the SAR Account, with the balance, if any, of the Allowed Scopac Loan Claim after such payment being paid by Newco, plus additional unpaid default rate interest under the Scopac Loan to be paid in twelve monthly installments with the first such payment being made on the Distribution Date; provided, however, notwithstanding anything herein to the contrary, for purposes of Cash Distributions by Newco under this Section 4.5.2 and Section 7.6.2(e) below, any cash equivalents in the SAR Account shall be transferred to Newco and Newco shall pay to Bank of America, as Holder of the Allowed Scopac Loan Claim, the par value of such cash equivalents in United States dollars; or (ii) such other treatment that the MRC/Marathon Plan Proponents or the Reorganized Entities 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).

4.6. Treatment of Class 6 - Scopac Timber Note Secured Claims.

4.6.1. Impairment and Voting. Class 6 is impaired by this Plan. Each Holder of an Allowed Scopac Timber Note Secured Claim as of the Record Date is entitled to vote to accept or reject this Plan.

4.6.2. Treatment.

4.6.2.1. To the extent that Class 6 does not make the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, on the Distribution Date, in full satisfaction, release and discharge of and in exchange for such Claims: (i) the MRC/Marathon Plan Proponents shall contribute \$580 million in Cash to Newco in the form of debt and equity. Newco shall pay or cause to be paid to the Timber Notes Indenture Trustee, for Pro Rata Distribution to Holders of Class 6 Allowed Scopac Timber Note Secured Claims as of the Record Date, Cash in the amount of \$530 million, as may be reduced by the Class 6 Distribution Adjustment; provided, however, notwithstanding the foregoing or any other provision of this Plan including the Class 6 Distribution Adjustment, Newco shall, on the Distribution Date, pay or cause to be paid to the Timber Notes Indenture Trustee on account of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims, for Pro Rata Distribution to Holders of Class 6 Allowed Scopac Timber Note Secured Claims as of the Record Date, not less than \$513.6 million in Cash. In addition, on or before the thirtieth (30th) day after all Administrative Expense Claims are allowed or otherwise determined by final order of the Bankruptcy Court pursuant to section 2.2 of this Plan (or such later date as the Bankruptcy Court may order), Newco shall pay or cause to be paid to the Timber Notes Indenture Trustee, for Pro Rata Distribution to Holders of Class 6 Allowed Scopac Timber Note Secured Claims as of the Record Date, the excess amount, if any, of Cash reserved on account of the estimated accrued and unpaid Administrative Expense Claims as of the Effective Date pursuant to the Class 6 Distribution Adjustment in excess of the aggregate amount of all Allowed Administrative Expense Claims; and (ii) notwithstanding anything herein to the contrary, the Timber Notes Indenture Trustee shall retain its lien, if any, on Scopac's claims in the Headwaters Litigation and the proceeds thereof, for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims, which claims shall be transferred to the SPC Litigation Trust pursuant to Section 7.6.2 of this Plan subject to any liens, claims and encumbrances (including without limitation the lien of the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims) and, to the extent of any such lien, shall receive an interest in the SPC Litigation Trust.

4.6.2.2. To the extent that Class 6 makes the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, on the Distribution Date, in full satisfaction, release and discharge of and in exchange for such Claims:

(a) (i) The MRC/Marathon Plan Proponents shall contribute \$75 million in Cash to Newco to fund various Claims associated with the Reorganization Cases, ordinary working capital, capital investment in Mill and an interest reserve; and

(ii) Newco shall issue or cause to be issued to the Timber Notes Indenture Trustee, for Pro Rata Distribution to Holders of Scopac Timber Note Secured Claims as of the Record Date, the Series A New Timber Notes in the principal amount of \$790 million pursuant to the Series A New Timber Notes Indenture and any related agreements as shall be set forth in the Plan Supplement.

(b) **Principal Terms of the Series A New Timber Notes and Series B New Timber Notes.** The terms and conditions for the Series A New Timber Notes, the Series A New Timber Notes Indenture and the Series B New Timber Notes and the Series B New Timber Notes Indenture shall be included in the Plan Supplement and shall include the following principal terms and conditions:

(i) **Transferability.** The Series A New Timber Notes and Series B New Timber Notes shall be tradable as set forth in the Series A New Timber Notes Indenture and Series B New Timber Notes Indenture, respectively.

(ii) **Principal Amount.** The Series A New Timber Notes shall be in the aggregate original principal amount of \$790 million.

(iii) **Maturity.** The Series A New Timber Notes and Series B New Timber Notes shall be due and payable in full on the first Business Day following the twenty-fifth anniversary of the Effective Date, unless Newco voluntarily elects to prepay them sooner.

(iv) **Interest.** The Series A New Timber Notes shall accrue interest on the principal balance (including any interest capitalized to the principal balance as provided herein), less any principal payments, at 2.75% per annum from the Effective Date through the final maturity date. Series B New Timber Notes shall accrue interest on the principal balance (including any interest capitalized to the principal balance as provided herein), less any principal payments, at 7% per annum from the date of issuance until the twenty-fifth anniversary following the Effective Date. The interest rate for each of the Series A New Timber Notes and the Series B New Timber Notes shall be adjusted such that the net present value of such notes is reduced to reflect the lower net present value required to satisfy the Class 6 Distribution Adjustment.

(v) **Interest Payments.** Commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date:

(1) 1.75% of accrued interest on the Series A New Timber Notes shall be paid in Cash semi-annually in arrears; provided, however, that during the first ten (10) years following the Effective Date, Newco shall have the option of deferring the Cash payment of the 1.75% annual interest rate on no more than ten (10) of the twenty (20) semi-annual interest payment dates in exchange for issuing additional Series B New Timber Notes in a like amount of the interest deferred pursuant to the Series B New Timber Notes Indenture and any related agreements as shall be set forth in the Plan Supplement; and

(2) 1% of accrued interest on the Series A New Timber Notes shall be deferred in exchange for issuing additional Series A New Timber Notes semi-annually in arrears in a like amount of the interest deferred.

(vi) **Amortization Payments.** No principal payments shall be due prior to the final maturity dates of the Series A New Timber Notes and Series B New Timber Notes.

(vii) **Asset Sales.** Proceeds of asset sales by Newco (i) of up to \$50 million on a cumulative basis shall be retained in their entirety by Newco, and (ii) equal to and in excess of \$50 million on a cumulative basis shall be split 50% to pay down the Series A New Timber Notes and Series B New Timber Notes and 50% to Newco.

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

(ix) **Distributions:** Newco shall have the right to pay tax distributions to its members. Newco shall also have the right to pay other distributions to its members so long as (a) it has paid Cash interest on the Series A New Timber Notes for the immediately preceding three (3) consecutive semi-annual payment dates, and (b) it has a fully funded Cash interest reserve of \$15 million.

(x) **Security.** The Series A New Timber Notes and Series B New Timber Notes shall be secured in the same collateral as the Scopac Timber Notes.

(xi) **Governing Law.** The Series A New Timber Notes and Series B New Timber Notes shall be governed by the laws of the State of New York.

4.6.3. Full and Complete Satisfaction. Except as otherwise provided in this Plan, the Distributions to the Timber Notes Indenture Trustee for the benefit of Holders of Class 6 Allowed Timber Note Secured Claims and to the SPC Litigation Trust under this Article IV shall be in full and complete satisfaction, release and discharge, as of the Effective Date, of and in exchange for all Allowed Scopac Timber Note Secured Claims, save and except for the Allowed Scopac Timber Note Secured Claims secured by any liens retained pursuant to this Plan by the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims. Except for the express obligations created by virtue of this Plan, none of the Debtors, the Plan Proponents and the Reorganized Entities shall have any obligation in respect of the Scopac Timber Note Secured Claims or the Scopac Timber Notes. Without limiting the foregoing, in each case without any further action on the part of the Bankruptcy Court or any Person, including but not limited to the Timber Notes Indenture Trustee, the Holders of Scopac Timber Notes and any governmental agency, any and all further Claims for any amounts allegedly owing under the Scopac Timber Notes and the Timber Notes Indenture shall, upon the occurrence of the Effective Date, be discharged to the fullest extent permitted under section 1141 of the Bankruptcy Code, except to the extent of the liens retained under this Plan. Notwithstanding the foregoing and anything in this Plan to the contrary, (i) the Holders of Class 6 Allowed Scopac Timber Note Secured Claims shall be entitled to payment of any Class 9 Scopac General Unsecured Claims in accordance with Section 4.9 of this Plan, (ii) the Scopac Timber Notes and the Timber Notes Indenture shall remain in full force and effect to the extent that obligations thereunder are secured by any continuing liens on Scopac's claims in the Headwaters Litigation and any proceeds thereof, and (iii) other than as set forth in Section 8.6.2 below, the terms of the Timber Notes Indenture shall continue solely to govern the distribution of payments made to the Timber Notes Indenture Trustee for the benefit of Holders of Class 6 Allowed Scopac Timber Note Secured Claims and the rights and obligations as among the Holders of Class 6 Allowed Scopac Timber Note Secured Claims and as between the Timber Notes Indenture Trustee and the Holders of Class 6 Allowed Scopac Timber Note Secured Claims. Upon the termination of the SPC Litigation Trust, (x) the Scopac Timber Notes and Timber Notes Indenture shall be deemed cancelled and of no further force or effect and all obligations thereunder shall be deemed likewise discharged, (y) the Timber Notes Indenture Trustee shall be

discharged of all duties under the Timber Notes Indenture, and (z) the Holders of Scopac Timber Note Secured Claims shall be deemed to have forever released and discharged the Timber Notes Indenture Trustee under the Timber Notes Indenture.

4.7. Treatment of Class 7 – Palco Trade Claims and Palco General Unsecured Claims.

4.7.1. Impairment and Voting. Class 7 is impaired by this Plan. Each Holder of an Allowed Palco Trade Claim and Allowed Palco General Unsecured Claim is entitled to vote to accept or reject this Plan.

4.7.2. Treatment. On the Distribution Date, each Holder of an Allowed Palco Trade Claim and Allowed Palco General Unsecured Claim shall receive, in full satisfaction, release and discharge of and in exchange for such Claim (excluding any post-petition interest), its Pro Rata share of \$10.1 million plus its applicable PLC Litigation Trust Participation for any remaining amount owed.

4.8. Treatment of Class 8 – Scopac Trade Claims.

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

4.8.2. Treatment. On the Distribution Date, each Holder of an Allowed Scopac Trade Claim shall receive, in full satisfaction, release and discharge of and in exchange for such Claim (excluding any post-petition interest), its Pro Rata share of \$500,000 from the PLC Litigation Trust plus, together with Holders of Allowed Scopac General Unsecured Claims and, to the extent described in Sections 4.6 and 8.10.2 of this Plan, the Holders of Allowed Scopac Timber Note Secured Claims, its applicable SPC Litigation Trust Participation for any remaining amount owed.

4.9. Treatment of Class 9 - Scopac General Unsecured Claims.

4.9.1. Impairment and Voting. Class 9 is impaired by this Plan. Each Holder of an Allowed Scopac General Unsecured Claim as of the Record Date is entitled to vote to accept or reject this Plan.

4.9.2. Treatment. On the Distribution Date, each Holder of an Allowed Scopac General Unsecured Claim shall receive, in full satisfaction, release and discharge of and in exchange for such Claim (excluding any post-petition interest), together with Holders of Allowed Scopac Trade Claims, and, to the extent described in section 4.6 and 8.10.2 of this Plan, the Holders of Allowed Scopac Timber Note Secured Claims, its applicable SPC Litigation Trust Participation.

4.10. Treatment of Class 10 - Inter-Debtor Claims.

4.10.1. Impairment and Voting. Class 10 is impaired by this Plan. Class 10 is deemed to have rejected this Plan, and therefore, shall not be entitled to vote to accept or reject this Plan.

4.10.2. Treatment. Inter-Debtor Claims shall be discharged and the Holders of Class 11 Inter-Debtor Claims are entitled to no Distributions under this Plan.

4.11. Treatment of Class 11 - Non-Debtor Affiliate Claims.

4.11.1. Impairment and Voting. Class 11 is impaired by this Plan. Class 11 is deemed to have rejected this Plan, and therefore, shall not be entitled to vote to accept or reject this Plan.

4.11.2. Treatment. Non-Debtor Affiliate Claims shall be discharged and the Holders of Non-Debtor Affiliate Claims are entitled to no Distributions under this Plan. Pursuant to section 510(a) of the Bankruptcy Code and various loan documents entered into with Marathon, including, without limitation, the Subordinated Intercompany Note dated July 18, 2006, any Claims of Maxxam Group Inc. and its affiliates, Maxxam

Inc. and Maxxam Group Holdings Inc., shall be subordinated and shall not be entitled to any Distributions under this Plan.

4.12. Treatment of Class 12 – Interests in the Debtors.

4.12.1. Impairment and Voting. Class 12 is impaired under this Plan. The Holders of Class 14 Interests are entitled to no Distributions under this Plan, and all Equity Interests shall be deemed canceled as of the Effective Date. Class 12 is deemed to have rejected this Plan, and therefore, shall not be entitled to vote to accept or reject this Plan.

4.12.2. Treatment. On the Effective Date, all Equity Interests shall be canceled, annulled and extinguished and all other agreements, instruments and documents evidencing the Equity Interests and the rights of the Holders thereof, shall be automatically cancelled and deemed null and void and of no further force and effect (all without further act or action by any Person) and Holders of Equity Interests shall not be entitled to receive or retain any property or interest in property under this Plan on account of such Equity 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 Plan shall be entitled to vote separately to accept or reject this 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 Plan.

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

5.3. Cramdown. If all applicable requirements for Confirmation of this Plan are met as set forth in section 1129(a)(1) through (13) of the Bankruptcy Code, except subsection (8) thereof, this Plan shall be treated as a request that the Bankruptcy Court confirm this 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 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 Plan.

5.4. Tabulation of the Votes. The MRC/Marathon Plan Proponents shall cause the tabulation of all votes on this Plan for the purpose of determining whether this Plan satisfies sections 1129(a)(8) and/or (10) of the Bankruptcy Code.

VI.

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.1. Rejection of Contracts and Leases. Except as otherwise provided herein or pursuant to the Confirmation Order, on the Effective Date, all executory contracts and unexpired leases between the Debtors and any Person, including, but not limited to, all Intercompany Contracts, shall be rejected pursuant to section 365(a) of the Bankruptcy Code except for (a) any such contract or lease 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, or (b) any such contract or lease that is specifically treated otherwise in this Plan. Entry of the Confirmation Order shall constitute approval, pursuant to section 365(a) of the Bankruptcy Code, of the rejection and assumption of executory contracts and unexpired leases provided for herein; *provided, however*, that any Environmental Obligation shall be treated as indicated in Section 2.5 of this Plan and any order entered in

connection with Confirmation of this Plan shall not constitute a finding that any Environmental Obligation is an executory contract.

6.2. Assumption of Certain Specified Contracts and Lease. Notwithstanding anything to the contrary contained in this Plan, including the immediately preceding Section 6.1, a list of Assumed Contracts which shall be deemed assumed pursuant to section 365(a) of the Bankruptcy Code as of the Effective Date shall be provided in the Plan Supplement, together with the MRC/Marathon Plan Proponents' estimate of the cure costs that would result from such assumption; *provided, however*, that any Environmental Obligation shall be treated as indicated in Section 2.5 of this Plan and any order entered in connection with Confirmation of this Plan shall not constitute a finding that any Environmental Obligation is an executory contract; *provided, further, however*, the MRC/Marathon Plan Proponents and the Reorganized Entities reserve the right, at any time prior to the Effective Date, to amend the Plan Supplement to: (a) delete any Assumed Contract listed therein, thus providing for its rejection pursuant to this Plan; or (b) add any executory contract or unexpired lease thereto, thus providing for its treatment as an Assumed Contract pursuant to this Plan. The MRC/Marathon Plan Proponents or the Reorganized Entities, as the case may be, shall provide notice of any such amendment to the Plan Supplement to the parties to the Assumed Contract affected thereby and to the parties on the then applicable service list in the Reorganization Cases. Each Assumed Contract listed in the Plan Supplement shall be assumed only to the extent that any such contract or lease constitutes an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code. Listing a contract or lease in the Plan Supplement shall not constitute an admission by the MRC/Marathon Plan Proponents or the Reorganized Entities that such contract or lease constitutes an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code or that the MRC/Marathon Plan Proponents or the Reorganized Entities have any liability thereunder.

6.3. Assumptions and Assignments of Real Property Assumed Contracts. Each Real Property Assumed Contract listed in the Plan Supplement shall include a description of any modifications, supplements, restatements or other agreements made directly or indirectly by any agreement, instrument or other document that in any manner affects such contract or lease, irrespective of whether such agreement, instrument or other document is listed in the Plan Supplement, unless such modification, amendment, supplement, restatement or other agreement is rejected pursuant to this Plan.

6.4. Assignments Related to the Restructuring Transactions. As of the effective time of an applicable Restructuring Transaction, any Assumed Contract (including any related agreement) to be held by any surviving, resulting or acquiring corporation in an applicable Restructuring Transaction, shall be deemed assumed by the Debtors and assigned to the applicable Reorganized Entity pursuant to section 365 of the Bankruptcy Code.

6.5. Assumption of Pension Plan. As of the Effective Date, the Reorganized Entities shall be deemed to have assumed the Debtors' Pension Plan pursuant to section 365(a) of the Bankruptcy Code. Upon the Effective Date, the Reorganized Entities shall continue to pay the obligations under the Debtors' Pension Plan in accordance with applicable law with respect to continued funding of such plans. Nothing in this Plan shall be deemed to discharge, release or relieve any Person or Entity from any current or future liability under applicable law with respect to the Debtors' Pension Plan. Any and all obligations to participants under the Debtors' Pension Plan shall be paid in accordance with applicable law.

6.6. Worker's Compensation Programs. Upon Confirmation and consummation of this Plan, the Reorganized Entities shall continue any pre-petition workers' compensation programs in accordance with applicable law, and the obligations of the Reorganized Entities under applicable law with respect to continued funding of such programs shall remain unaltered. Nothing in this Plan shall be deemed to discharge, release or relieve the Debtors or the Reorganized Entities, of or from any current or future liability for their workers' compensation programs under applicable law. Any and all obligations under the pre-petition workers' compensation programs shall be paid in accordance with applicable law. The Debtors (and the Reorganized Entities, as applicable, upon the Effective Date of this Plan) shall be responsible for all valid claims for benefits and liabilities under the workers' compensation programs regardless of when the actual injuries occurred.

6.7. Compensation and Benefit Programs. Except as otherwise set forth in Sections 6.5 and 6.6, to the extent provided herein or in the Plan Supplement, all employment and severance agreements and policies, and all compensation and benefit plans, policies, and programs of the Debtors applicable to their employees, officers and

directors including, without limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit agreements and plans, incentive plans, deferred compensation plans and life, accidental death and dismemberment insurance plans, shall be treated as executory contracts under the Plan, and on the Effective Date shall be deemed rejected pursuant to the provisions of sections 365 and 1123 of the Bankruptcy Code, except for executory contracts or employee benefit plans specifically assumed pursuant to this Plan or the Plan Supplement.

6.8. Cure of Defaults. On the Effective Date, the Reorganized Entities, as the case may be, (a) shall cure or provide adequate assurance that it shall cure any and all undisputed defaults under any Assumed Contract, and (b) compensate or provide adequate assurance that it shall promptly compensate the other parties to such executory contract or unexpired lease for the agreed amount of any actual pecuniary loss to such party resulting from such undisputed default in accordance with section 365(b)(1) of the Bankruptcy Code. In the event that the Reorganized Entities dispute the existence of a default, or the nature, extent or amount of any required cure, adequate assurance or compensation, the obligations of the Reorganized Entities under section 365(b) of the Bankruptcy Code shall be determined at the Confirmation Hearing or at any other hearing ordered by the Bankruptcy Court, and any such obligations shall be performed by the Reorganized Entities within thirty days after the Effective Date unless otherwise provided in the Confirmation Order or by other order of the Bankruptcy Court.

6.9. Rejection Claims. If the rejection of an executory contract by the Debtors (pursuant to this Plan or otherwise) results in a Claim, then such Claim shall be forever barred and shall not be enforceable against the Debtors and the Reorganized Entities unless a Proof of Claim is filed with the Balloting and Claims Agent and served upon counsel for the Debtors, counsel for the MRC/Marathon Plan Proponents, counsel for the Reorganized Entities, counsel for either the PLC Litigation Trustee or counsel for the SPC Litigation Trustee, as applicable no later than thirty (30) days after the earlier of (i) entry of the Confirmation Order, or (ii) entry of an order approving such rejection. Unless otherwise ordered by the Bankruptcy Court, all Claims arising from the rejection of executory contracts and unexpired leases shall be treated, to the extent they are Allowed Claims, as Allowed Class 7, 8 or 9 Claims, as appropriate, and shall be forever barred and shall not be enforceable against the Reorganized Entities.

VII. MEANS OF IMPLEMENTATION OF THE PLAN

7.1. Summary of Reorganization of the Debtors. On or prior to the Effective Date, (a) as set forth in Section 4.6.2.1(a)(i) above, to the extent that Class 6 does not make the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, the MRC/Marathon Plan Proponents shall contribute \$580 million in Cash to Newco, or (b) as set forth in Section 4.6.2.2(a)(i) above, to the extent that Class 6 makes the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, on the Distribution Date, in full satisfaction, release and discharge of and in exchange for such Claims, the MRC/Marathon Plan Proponents shall contribute \$75 million in Cash to Newco. Also on the Effective Date, the Debtors shall be reorganized into two newly formed Reorganized Entities, Newco and Townco, and, except as otherwise set forth herein, all of the Debtors' Assets shall be transferred to these Reorganized Entities free and clear of all Claims, Liens, charges, other encumbrances and Interests. On and after the Effective Date, the Reorganized Entities may operate their businesses, may use, acquire and dispose of property, may retain, compensate and pay any professionals or advisors, and compromise or settle any causes of action, claims or interests without supervision of or approval by the Bankruptcy Court and free and clear of any restrictions of the Bankruptcy Code or the Bankruptcy Rules other than restrictions expressly imposed by the Plan and the Confirmation Order.

7.2. Litigation Trust Assets. On the Effective Date, as set forth below, (i) all PLC Litigation Trust Assets and SPC Litigation Trust Assets of the Debtors shall be transferred by the Debtors to the PLC Litigation Trust and SPC Litigation Trust, respectively, free and clear of all Claims, Liens, charges, other encumbrances and Interests, except as otherwise set forth in the Plan, and (ii) Newco shall transfer to the PLC Litigation Trust that certain \$10.6 million, which amount shall be used by the PLC Litigation Trustee first for payment to Holders of Allowed claims classified in Class 7 and 8, second to repay the PLC Funding Amount and finally, any remaining amounts returned to the Reorganized Entities.

7.3. Voting by and Distributions to Holders of Claims against the Palco Debtors. The Palco Debtors shall be pooled for the purposes of voting, Confirmation and Distribution. A Claim against any one of the Palco Debtors shall be deemed as a Claim against all of the Palco Debtors. No distributions shall be made under the Plan on account of Inter-Debtor Claims among the Debtors and such Claims shall be discharged on the Effective Date in accordance with Section 4.10 of this Plan. With respect to the Palco Debtors, Holders of Allowed Claims in each Class established pursuant to this Plan shall be entitled to their Pro Rata Share of assets available for Distribution to such Class without regard to which Palco Debtor was originally liable for such Claim.

7.4. No distributions for Holders of Certain Claims and Interests. No distributions shall be made under the Plan on account of Non-Debtor Affiliate Claims and such claims shall be discharged on the Effective Date in accordance with Section 4.11 of this Plan. No distributions shall be made under the Plan on account of Equity Interests in the Debtors, including, without limitations, those Equity Interests held by other Debtor and Non-Debtor affiliates, in accordance with Section 4.12 of this Plan. All guarantees of the Debtors of the obligations of any other Debtor shall be deemed eliminated so that any claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint or several liability of any of the Debtors shall be deemed to be one obligation of the Debtors.

7.5. Operations of the Reorganized Entities. On and after the Effective Date, the Reorganized Entities may operate their businesses, may use, acquire and dispose of property, may retain, compensate and pay any professionals or advisors, and compromise or settle any causes of action, claims or interests, other than those vested in the PLC Litigation Trust or the SPC Litigation Trust, without supervision of or approval by the Bankruptcy Court and free and clear of any restrictions of the Bankruptcy Code and the Bankruptcy Rules other than restrictions expressly imposed by the Plan or the Confirmation Order.

7.6. Restructuring Transactions.

7.6.1. Authorized Share Capital and Corporate Structure. On or as soon as reasonably practicable after the Effective Date, as set forth in Article IX of this Plan, (i) 100% of the Newco equity interests shall, without the need for any further corporate act or other action under any applicable law, regulation, order or rule, be issued and distributed by Newco to the MRC/Marathon Plan Proponents, 85% to MRC, and 15% to Marathon (each subject to adjustment); and (ii) 100% of the Townco equity interests shall, without the need for any further corporate act or other action under any applicable law, regulation, order or rule, be issued and distributed by Townco to Marathon.

7.6.2. Transfer of Assets. Except as otherwise set forth in this Plan, on the Effective Date, the Debtors shall transfer all Assets of the Estates and Interests in the Estates, to the fullest extent of sections 541 and 1123(a)(5)(B) of the Bankruptcy Code (including any stock of subsidiaries), and any and all other rights and Assets of the Debtors of every kind and nature to the Reorganized Entities, the PLC Litigation Trust and the SPC Litigation Trust, as applicable, free and clear of all Liens, Claims and Interests other than (i) those Liens, Claims and Interests retained or created pursuant to this Plan or any document entered into in connection with the transactions described in this Plan, and (ii) Liens that have arisen subsequent to the Petition Date on account of taxes that arose subsequent to the Petition Date. The transfer and assignment of any Assets of the Debtors shall be, to the fullest extent permitted by law, exempt from all stamp taxes and similar taxes within the meaning of section 1146(c) of the Bankruptcy Code. Specifically,

(a) any and all of the Assets of the Mill and Scopac, and any and all Assets of the Debtors currently associated with or anticipated to be associated with the Mill and Scopac, and any other Assets of the Debtors, including without limitation, all of the Palco Debtors' claims in the Headwaters Litigation and the proceeds thereof, other than those being transferred to Townco or transferred to the PLC Litigation Trust or the SPC Litigation Trust, shall be transferred by the Debtors to Newco;

(b) any and all of the Assets of the Debtors currently associated with or anticipated to be associated with Scotia, including, without limitation, the power plant and the Britt mill in Arcata, California, shall be transferred by the Debtors to Townco;

(c) any PLC Litigation Trust Assets of the Palco Debtors shall be transferred by the Palco Debtors to the PLC Litigation Trust;

(d) any SPC Litigation Trust Assets of Scopac shall be transferred by Scopac to the SPC Litigation Trust; and

(e) Cash in an amount equal to the unpaid principal amount of the Allowed Class 5 Scopac Loan Claim plus accrued but unpaid interest, fees and other expenses, at the applicable non-default rate of interest under the Scopac Loan, shall be transferred from the SAR Account by the Debtors to the Holder of the Allowed Class 5 Scopac Loan Claim. Any remaining Assets held in the SAR Account, including without limitation any cash equivalents and ARSs, shall be transferred by the Debtors to Newco. Any remaining amounts owed in respect of the Allowed Class 5 Scopac Loan Claim and Class 6 Allowed Scopac Timber Note Secured Claims shall be paid by Newco.

7.6.3. Cancellation of Notes, Instruments, and Interests. On the Effective Date, and after giving effect to the Distributions to be made on the Effective Date hereunder and except as otherwise provided in Section 4.6.3 of this Plan with respect to the Scopac Timber Notes and the Timber Notes Indenture, (i) all existing securities, equity interests, notes, bonds, indentures, and other instruments or documents evidencing or creating any indebtedness, equity interest or obligation, and all Liens, charges, encumbrances and rights related to the foregoing (except as same relates to the Palco DIP Loan), including but not limited to the Palco Term Loan Agreement, the Scopac Loan Agreement and all Equity Interests, shall, if not terminated, canceled, annulled or extinguished by another provision of this Plan, be fully and finally terminated, cancelled, annulled and extinguished and deemed null and void and of no further force and effect and all obligations thereunder shall be deemed likewise discharged (all without further act or action by any Person) and none of the Debtors, the MRC/Marathon Plan Proponents and the Reorganized Entities shall have any obligation in respect of same. Notwithstanding the foregoing and anything in this Plan to the contrary, the Scopac Timber Notes and the Timber Notes Indenture shall continue in effect solely under the terms and for the purposes set forth in Section 4.6.3 (ii) and (iii) and 8.6.2 of this Plan.

7.6.4. Certificates of Formation and Organizational Documents of Reorganized Entities. As of the Effective Date, the certificates of formation and limited liability company operating agreements of each of the Reorganized Entities (or comparable organizational documents) shall be substantially in the form set forth in the Plan Supplement and shall, among other things, (i) prohibit the issuance of non-voting equity securities to the extent required by section 1123(a) of the Bankruptcy Code and (ii) authorize the issuance of equity interests in amounts not less than the amounts necessary to permit the distributions thereof required or contemplated by the Plan. After the Effective Date, the Reorganized Entities may amend and restate their certificates of formation and limited liability company operating agreements as permitted by applicable law or pursuant to such certificates of formation and limited liability company operating agreements.

7.6.5. Additional Transactions. The MRC/Marathon Plan Proponents and the Reorganized Entities reserve the right to undertake transactions as may be necessary or appropriate under the circumstances. Such transactions may include one or more mergers, sales, consolidations, restructurings, acquisitions, dispositions, liquidations or dissolutions, as may be determined by the MRC/Marathon Plan Proponents or the Reorganized Entities. The actions to effect these Restructuring Transactions may include: (a) the execution and delivery of appropriate agreements or other documents of merger, sale, consolidation, restructuring, disposition, liquidation or dissolution containing terms that are consistent with the terms of this Plan and that satisfy the applicable requirements of applicable state law and such other terms to which the applicable entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, duty or obligation on terms consistent with the terms of this Plan and having such other terms to which the applicable entities may agree; (c) the filing of appropriate certificates or articles of merger, consolidation, incorporation, formation or dissolution pursuant to applicable state law; and (d) all other actions that the applicable entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable state law.

7.7. Post-Effective Date Management of the Reorganized Entities. Except as expressly provided in this Plan and the certificates of formation and limited liability company operating agreements of the

Reorganized Entities, which certificates may be amended from time to time, the operation, management and control of the Reorganized Entities shall be the general responsibility of their boards of directors or managers and senior officers, which shall thereafter have the responsibility for the management, control and operation of the Reorganized Entities, respectively.

7.7.1. Directors and Officers of the Reorganized Entities. On and after the Effective Date, the business and affairs of the Reorganized Entities shall be managed by the officers and directors or managers, as the case may be, identified in the Disclosure Statement, as supplemented or otherwise modified by the Plan Supplement. Biographical information regarding these proposed officers, directors, and managers shall be set forth in the Disclosure Statement, as supplemented or otherwise modified by the Plan Supplement. A schedule of the annual compensation to be paid to persons serving as executives, officers and directors or managers as of the Effective Date shall be set forth in the Plan Supplement.

7.7.2. New Employment, Retirement, Indemnification and Other Related Agreements. As of the Effective Date, the Reorganized Entities, as the case may be, shall have the authority, without the need for any approval by the Bankruptcy Court, as determined by their respective governing Persons or Entities, (i) to maintain, amend or revise existing employment, retirement, welfare, incentive, severance, indemnification and other agreements with its active and retired directors or managers, officers and employees, subject to the terms and conditions of any such agreement, and (ii) to enter into new employment, retirement, welfare, incentive, severance, indemnification and other agreements for active and retired employees.

7.8. Exit Financing. On the Effective Date, without the requirement of further action, the Reorganized Entities shall be authorized to execute and deliver those documents necessary or appropriate to obtain the Exit Financing, including without limitation, any documents required in connection with the creation or perfection of the Liens on the collateral for the Exit Financing, if any. Confirmation of this Plan shall constitute an approval of the transactions contemplated hereby and all the actions to be taken, undertakings to be made and obligation to be incurred by the Reorganized Entities, as the case may be, in connection therewith, including the issuance by Newco to Marathon (and the retention by Marathon) of a promissory note in the aggregate principal amount equal to the amount of the Mill Working Capital and secured solely by Liens on the Mill Working Capital. The Exit Financing and or the Reorganized Entities' Cash balances and operations, may be used for any purpose permitted by the Exit Financing, including the funding of obligations under this Plan, such as the payment of Administrative Expense Claims and the satisfaction of ongoing working capital requirements. Cash payments to be made pursuant to this Plan shall be made by the Reorganized Entities, the PLC Litigation Trust, or the SPC Litigation Trust, as applicable, and the Reorganized Entities shall be entitled to transfer funds between and among themselves as they deem to be necessary or appropriate to enable the Reorganized Entities to satisfy their obligations under this Plan. Any intercompany claims resulting from such transfers shall be accounted for and settled in accordance with the methodology determined by the Reorganized Entities in their sole discretion.

7.9. Dissolution of Corporate Entities. As soon as practicable after the Effective Date, the Reorganized Entities may take all actions necessary or appropriate to effect the dissolution of each of the Debtors under the appropriate state laws or take such other actions as the Reorganized Entities deem appropriate to provide for the revocation of the corporate charter for each of the Debtors.

7.10. Corporate and LLC Action. Upon entry of the Confirmation Order, the transfers and dissolutions contemplated by this Plan shall be deemed authorized and approved in all respects. On the Effective Date, the matters provided under the Plan involving the corporate structures of the Debtors and the Reorganized Entities shall be deemed to have occurred and shall be in effect from and after the Effective Date pursuant to applicable state laws without any requirement of further action by the stockholders or directors of the Debtors or the Reorganized Entities. On the Effective Date, the PLC Litigation Trustee and SPC Litigation Trustee shall be authorized and directed to take all necessary and appropriate actions to effectuate the transactions contemplated by the PLC Litigation Trust Agreement, the SPC Litigation Trust Agreement, this Plan and other Plan Documents, as the case may be.

7.11. Authorization to Implement this Plan. The entry of the Confirmation Order shall constitute authorization for the Debtors, the MRC/Marathon Plan Proponents, the Reorganized Entities, the PLC Litigation Trustee, and the SPC Litigation Trustee, as the case may be, to take or cause to be taken all corporate and limited

liability company actions necessary or appropriate to implement all provisions of, and to consummate this 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 this Plan.

7.12. Effectuating Documents and Further Transactions. Each of the Debtors, the Plan Proponents, the Reorganized Entities, the PLC Litigation Trustee, and the SPC Litigation Trustee, as the case may be, is authorized and directed to execute, deliver, file or record such contracts, instruments, releases and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement and further evidence the terms and conditions of the Plan Documents.

7.13. Compliance With Environmental Laws. Under the Plan, the Debtors, the MRC/Marathon Plan Proponents and the Reorganized Entities, as the case may be, shall comply, complete, perform, satisfy and/or provide for satisfaction or completion of any current, ongoing, executory, and future regulatory or statutory obligations which arise or result from, or may arise or result from, the Environmental Obligations.

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

VIII. ESTABLISHMENT OF LITIGATION TRUSTS AND DESIGNATION OF LITIGATION TRUSTEES

8.1. Establishment of Litigation Trusts.

8.1.1. Establishment of PLC Litigation Trust. On the Effective Date, the Reorganized Entities shall take any and all such actions as may be necessary or appropriate to establish the PLC Litigation Trust, including the execution and delivery of the PLC Litigation Trust Agreement, in substantially the form provided in the Plan Supplement; *provided, however*, for avoidance of doubt, PLC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, PLC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of the Palco Debtors that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the PLC Litigation Trustee within ten (10) Business Days after the PLC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) the Debtors' claims in the Headwaters Litigation and the proceeds thereof; (vi) Causes of Action with respect to Environmental Obligations; (vii) Causes of Action of Scopac; (viii) the SPC Litigation Trust Assets; (ix) the PLC Funding Amount; and (x) the SPC Funding Amount.

The PLC Litigation Trust shall be known as the "PLC Litigation Trust" but shall not be referred to as any of the following: "Scotia Development"; "Pacific Lumber"; "Britt Lumber"; "Salmon Creek"; "Scotia Inn"; "Scotia Pacific"; "Palco"; "Scopac"; or "SPC Litigation Trust".

8.1.2. Establishment of SPC Litigation Trust. On the Effective Date, or as soon thereafter as practicable, the Debtors, the Reorganized Entities and the Timber Notes Indenture Trustee shall take any and all such actions as may be necessary or appropriate to establish the SPC Litigation Trust, including the execution and delivery of the SPC Litigation Trust Agreement; *provided, however*, for avoidance of doubt, the SPC Litigation

Trust Assets shall include Scopacs' claims in the Headwaters Litigation and the proceeds thereof and Causes of Action of Scopac for money damages only, subject to any liens retained pursuant to this Plan by the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims; *provided, further, however*, for avoidance of doubt, SPC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, SPC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the SPC Litigation Trustee within ten (10) Business Days after the SPC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of the Palco Debtors; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) Causes of Action with respect to Environmental Obligations; (vi) Causes of Action of the Palco Debtors, including their claims in the Headwaters Litigation, and the proceeds thereof; (vii) the PLC Litigation Trust Assets; (viii) the PLC Funding Amount; and (ix) the SPC Funding Amount.

The SPC Litigation Trust shall be known as the "SPC Litigation Trust" but shall not be referred to as any of the following: "Scotia Development"; "Pacific Lumber"; "Britt Lumber"; "Salmon Creek"; "Scotia Inn"; "Scotia Pacific"; "Palco"; "Scopac"; or "PLC Litigation Trust".

8.2. Federal Income Tax Treatment. For federal income tax purposes, the beneficiaries of the PLC Litigation Trust and the SPC Litigation Trust shall be treated as the grantors of the PLC Litigation Trust and the SPC Litigation Trust, respectively, and deemed to be the owners of the assets of the PLC Litigation Trust and the SPC Litigation Trust, respectively, and the Reorganized Entities shall treat the transfer of the assets of the Debtors to the PLC Litigation Trust and the SPC Litigation Trust, respectively, as a deemed transfer to such beneficiaries followed by a deemed transfer by such beneficiaries back to the PLC Litigation Trust and the SPC Litigation Trust, respectively.

8.3. Purpose of Litigation Trusts.

8.3.1. Purpose of PLC Litigation Trust. The PLC Litigation Trust shall be established for the purposes of liquidating and Distributing the PLC Litigation Trust Assets to the Holders of Allowed Claims for Classes 7 and 8 as set forth in this Plan, and paying Statutory Fees as set forth in this Plan. The PLC Funding Amount shall not be considered an asset of the PLC Litigation Trust for Distribution to Holders of Allowed Claims for Classes 7 and 8 (as provided in Section 9.2.1 of this Plan). The PLC Litigation Trustee shall be responsible for prosecuting, settling, resolving or abandoning all PLC Litigation Trust Assets. Other rights and duties of the PLC Litigation Trustee and the beneficiaries shall be as set forth in the PLC Litigation Trust Agreement. The Reorganized Entities shall provide the PLC Litigation Trustee with reasonable access to their books, records, documents and personnel for investigation and prosecution of the PLC Litigation Trust Assets and for the making of Distributions, at the expense of the PLC Litigation Trust.

8.3.2. Purpose of SPC Litigation Trust. The SPC Litigation Trust shall be established for the purposes of liquidating and Distributing the SPC Litigation Trust Assets to the Holders of Allowed Claims in Classes 6, 8 and 9, as applicable, and paying Statutory Fees as set forth in this Plan. The SPC Funding Amount shall not be considered an asset of the SPC Litigation Trust for Distribution to Holders of Allowed Claims for Classes 6, 8 and 9. The SPC Litigation Trustee shall be responsible for prosecuting, settling, resolving or abandoning all SPC Litigation Trust Assets. Other rights and duties of the SPC Litigation Trustee and the beneficiaries shall be as set forth in the SPC Litigation Trust Agreement. The Reorganized Entities shall provide the SPC Litigation Trustee with reasonable access to their books, records, documents and personnel for investigation and prosecution of the SPC Litigation Trust Assets and for the making of Distributions, at the expense of the SPC Litigation Trust.

8.4. Powers and Obligations of Litigation Trusts.

8.4.1. Powers and Obligations of PLC Litigation Trust. In addition to all powers enumerated in this Plan, in the PLC Litigation Trust Agreement and in the Confirmation Order, from and after the Effective Date, the PLC Litigation Trust shall succeed to all of the rights of the Palco Debtors necessary for prosecuting, settling, resolving or abandoning all PLC Litigation Trust Assets. As of the Effective Date, the PLC Litigation Trust shall be responsible for performing the obligations, enforcing the rights and exercising the remedies of the Palco Debtors with respect to any claim or interest of the Palco Debtors or the Palco Debtors' Estates in accordance with section 1123(b)(3)(B) of the Bankruptcy Code, for making Distributions to Holders of Allowed Claims for Classes 7 and 8, as applicable, and for settling, resolving and objecting to Claims for Classes 7 and 8 against the Debtors and for the investigation, prosecution and/or settlement of PLC Litigation Trust Assets.

8.4.2. Powers and Obligations of SPC Litigation Trust. In addition to all powers enumerated in this Plan, in the SPC Litigation Trust Agreement and in the Confirmation Order, from and after the Effective Date, the SPC Litigation Trust shall succeed to all of the rights of Scopac necessary for prosecuting, settling, resolving or abandoning all SPC Litigation Trust Assets. As of the Effective Date, the SPC Litigation Trust shall be responsible for performing the obligations, enforcing the rights and exercising the remedies of Scopac with respect to any claim or interest of Scopac or Scopac's Estate in accordance with section 1123(b)(3)(B) of the Bankruptcy Code, for making Distributions to Holders of Allowed Claims for Classes 6, 8 and 9, as applicable, and for settling, resolving and objecting to Claims for Class 8 (subject to Section 9.2.1(ii) below) and Class 9 against Scopac and for the investigation, prosecution and/or settlement of SPC Litigation Trust Assets.

8.5. Litigation Trust Distributions.

8.5.1. PLC Litigation Trust Distributions. On the Effective Date, each Holder of an Allowed Claim in Classes 7 and 8 shall, by operation of the Plan, (i) become a beneficiary of the PLC Litigation Trust, and (ii) be bound by the PLC Litigation Trust Agreement, and (iii) Holder of an Allowed Claim in Class 7 shall, by operation of the Plan, receive its applicable PLC Litigation Trust Participation. The PLC Litigation Trustee shall make distributions to the Holders of Allowed Claims in Classes 7 and 8 as set forth in the PLC Litigation Trust Agreement and this Plan.

8.5.2. SPC Litigation Trust Distributions. On the Effective Date, each Holder of an Allowed Claim in Classes 6, 8 and 9, as applicable, shall, by operation of the Plan, (i) become a beneficiary of the SPC Litigation Trust, (ii) be bound by the SPC Litigation Trust Agreement, and (iii) receive its SPC Litigation Trust Participation. The SPC Litigation Trustee shall make distributions to the Holders of Allowed Claims in Classes 6, 8 and 9, as applicable, as set forth in the SPC Litigation Trust Agreement and this Plan.

8.6. Appointment of the Litigation Trustees.

8.6.1. Appointment of the PLC Litigation Trustee. Subject to Bankruptcy Court approval, the Committee and the MRC/Marathon Plan Proponents shall nominate one person to serve as the PLC Litigation Trustee. The identity and resume of the PLC Litigation Trustee shall be filed with the Bankruptcy Court and served on those requesting notice pursuant to Bankruptcy Rule 2002 at least fifteen (15) days before the Confirmation Date or such other date fixed by the Bankruptcy Court. The PLC Litigation Trustee shall be the exclusive trustee of the assets of the PLC Litigation Trust for purposes of 31 U.S.C. § 3713(b) and 26 U.S.C. § 6012(b)(3), as well as the appointed representative of the Debtors with respect to the Avoidance Actions and all other PLC Litigation Trust Assets, and net proceeds thereof, pursuant to section 1123(b)(3)(B) of the Bankruptcy Code. The only assets of the PLC Litigation Trust shall be the PLC Litigation Trust Assets and the net proceeds thereof.

8.6.2. Appointment of the SPC Litigation Trustee. Subject to Bankruptcy Court approval, the Plan Proponents and the Timber Notes Indenture Trustee shall nominate one independent person to serve as the SPC Litigation Trustee. In the event that the parties are unable to agree on such nomination, the SPC Litigation Trustee shall be selected by the Bankruptcy Court, or if the Bankruptcy Court declines to select the SPC Litigation Trustee, pursuant to any process required by the Bankruptcy Court, or, alternatively, by the U.S. Trustee. The SPC Litigation Trustee shall be the exclusive trustee of the assets of the SPC Litigation Trust for purposes of 31 U.S.C. § 3713(b) and 26 U.S.C. § 6012(b)(3), as well as the appointed representative of the Debtors with respect to the Avoidance Actions and all other SPC Litigation Trust Assets, and net proceeds thereof, pursuant to section 1123(b)(3)(B) of the Bankruptcy Code. The only assets of the SPC Litigation Trust shall be the SPC Litigation Trust Assets (including without limitation the SPC Funding Amount) and the net proceeds thereof.

8.7. Litigation Trust Boards.

8.7.1. PLC Litigation Trust Board. The Committee shall choose three persons to serve, without compensation, as members of the PLC Litigation Trust Board, which shall have the responsibility to review and advise the PLC Litigation Trustee with respect to the liquidation and Distribution of the PLC Litigation Trust Assets in accordance with the PLC Litigation Trust Agreement and the Confirmation Order.

8.7.2. SPC Litigation Trust Board. Subject to Bankruptcy Court approval, the Plan Proponents and the Timber Notes Indenture Trustee shall nominate three independent persons to serve, without compensation, as members of the SPC Litigation Trust Board which shall have the responsibility to review and advise the SPC Litigation Trustee with respect to the liquidation and Distribution of the SPC Litigation Trust Assets in accordance with the SPC Litigation Trust Agreement and the Confirmation Order. In the event that the parties are unable to agree on such nominations, the members of the SPC Litigation Board shall be selected by the Bankruptcy Court, or if the Bankruptcy Court declines to select the members of the SPC Litigation Board, pursuant to any process required by the Bankruptcy Court, or, alternatively, by the U.S. Trustee. Any agreement to pay compensation to the members of the SPC Litigation Trust Board shall be subject to prior Bankruptcy Court approval.

8.8. Litigation Trusts' Costs and Expenses. The costs and expenses incurred by the PLC Litigation Trust and the SPC Litigation Trust on and after the Effective Date shall be paid in the ordinary course of business from the PLC Litigation Trust and SPC Litigation Trust, respectively.

8.9. Litigation Trust Funding.

8.9.1. PLC Litigation Trust Funding. On the Effective Date, Newco shall fund or cause to be funded the PLC Funding Amount to the PLC Litigation Trust. The PLC Litigation Trustee shall satisfy any fees and expenses of the PLC Litigation Trust with either the PLC Funding Amount and/or Cash proceeds of the PLC Litigation Trust Assets when and to the extent they are realized; *provided, however*, in no event shall any portion of that certain \$10.6 million to be provided by Newco to the PLC Litigation Trust on the Effective Date be utilized to satisfy any fees and expenses of the PLC Litigation Trust; *provided, further, however*, notwithstanding anything herein to the contrary, after payment of all amounts owing under the Plan to Holders of Allowed Claims classified in Classes 7 and 8 from the \$10.6 million provided by Newco to the PLC Litigation Trust on the Effective Date, up to \$500,000 of any such remaining funds may be utilized by the PLC Litigation Trustee to repay the PLC Funding Amount and the SPC Funding Amount and the balance, if any, of such funds, shall not be utilized to satisfy any fees and expenses of the PLC Litigation Trust but shall be returned to those entities that provided such amounts. The PLC Litigation Trustee, in its discretion, shall hire counsel and such other professionals. Except as set forth in Section 7.2(ii) above and this Section 8.9, the Debtors, the MRC/Marathon Plan Proponents, and the Reorganized Entities shall have no obligation (i) to provide any funds or other property or assets to the PLC Litigation Trust or to the SPC Litigation Trust, or (ii) to pay or reimburse any of the expenses the PLC Litigation Trust or the SPC Litigation Trust.

8.9.2. SPC Litigation Trust Funding. On the Effective Date, the Timber Notes Indenture Trustee shall fund or cause to be funded the SPC Funding Amount to the SPC Litigation Trust. The SPC Litigation Trustee shall satisfy any fees and expenses of the SPC Litigation Trust with either the SPC Funding Amount and/or Cash proceeds of the SPC Litigation Trust Assets when and to the extent they are realized. The SPC Litigation

Trustee, in its discretion, shall hire counsel and such other professionals. Except as set forth in Section 7.2(ii) above and this Section 8.9, the Debtors, the MRC/Marathon Plan Proponents, and the Reorganized Entities shall have no obligation (i) to provide any funds or other property or assets to the PLC Litigation Trust or to the SPC Litigation Trust, or (ii) to pay or reimburse any of the expenses the PLC Litigation Trust or the SPC Litigation Trust.

8.10. Litigation Trust Distributions.

8.10.1. *PLC Litigation Trust Distributions.* Any recovery by the PLC Litigation Trust on account of the PLC Litigation Trust Assets (which, other than as set forth in Section 8.9 above, for purposes of this Section 8.10(i) and (ii) shall not include the funds to be paid to Holders of Allowed Claims classified in Classes 7 and 8) shall be applied in the following order: (i) first, to pay any unpaid costs and expenses of the PLC Litigation Trust, including without limitation reasonable attorneys' fees and expenses and court costs; (ii) second, to repay the PLC Funding Amount to Newco, together with interest thereon, until the PLC Funding Amount (together with all accrued interest) has been repaid in full; *provided, however*, notwithstanding anything herein to the contrary, the PLC Funding Amount shall be reimbursed by the PLC Litigation Trust only to the extent that Cash proceeds of the PLC Litigation Trust Assets sufficient to do so have been realized, and in the event that insufficient funds have been realized to pay off the PLC Funding Amount, this shall not be a basis to prevent the Trust from termination in accordance with the terms of this Plan; and (iii) third, distributed to Holders of Allowed Claims for Classes 7 and 8 in accordance with this Plan and the PLC Litigation Trust Agreement.

8.10.2. *SPC Litigation Trust Distributions.* Any recovery by the SPC Litigation Trust on account of the SPC Litigation Trust Assets shall be applied in the following order: (i) first, to pay any unpaid costs and expenses of the SPC Litigation Trust, including without limitation reasonable attorneys' fees and expenses and court costs; (ii) second, to repay the amount of the SPC Funding Amount to the Timber Notes Indenture Trustee; *provided, however*, notwithstanding anything herein to the contrary, the SPC Funding Amount shall be reimbursed by the SPC Litigation Trust only to the extent that Cash proceeds of the SPC Litigation Trust Assets sufficient to do so have been realized, and in the event that insufficient funds have been realized to pay off the SPC Funding Amount, this shall not be a basis to prevent the SPC Litigation Trust from termination in accordance with the terms of this Plan; and (iii) third, to holders of liens, claims and encumbrances, if any, on the net proceeds of Scopac's claims in the Headwaters Litigation (including without limitation, the lien of the Timber Notes Indenture Trustee for Distribution to Holders of Class 6 Allowed Scopac Timber Note Secured Claims, if any) and (iv) fourth, Distributed to Holders of Allowed Claims for Classes 8 and 9 in accordance with this Plan and the SPC Litigation Trust Agreement.

8.11. Resignation, Death or Removal of the PLC Litigation Trustee. The PLC Litigation Trustee may be removed by the PLC Litigation Trust Board with the approval of the Bankruptcy Court upon application for good cause shown. In the event of the resignation, removal, death or incapacity of the PLC Litigation Trustee, the PLC Litigation Trust Board shall designate another Person to become PLC Litigation Trustee and thereupon the successor to the PLC Litigation Trustee, without any further action, shall become fully vested with all of the rights, powers, duties and obligations of his or her predecessor.

8.12. Resignation or Removal of the SPC Litigation Trustee. The SPC Litigation Trustee may be removed by the SPC Litigation Trust Board with the approval of the Bankruptcy Court upon application for good cause shown. The Timber Notes Indenture Trustee shall receive notice of the filing of any such application. In the event of the resignation or removal of the SPC Litigation Trustee, the SPC Litigation Trust Board shall designate another Person to become SPC Litigation Trustee and thereupon the successor to the SPC Litigation Trustee, without any further action, shall become fully vested with all of the rights, powers, duties and obligations of his or her predecessor.

8.13. Termination of the Litigation Trusts.

8.13.1. *Termination of the PLC Litigation Trust.* The duties, responsibilities and powers of the PLC Litigation Trustee, and the PLC Litigation Trust, shall terminate on the earlier of (i) full resolution of all PLC Litigation Trust Assets transferred to the PLC Litigation Trust, Distribution of the PLC Litigation Trust Assets and the net proceeds thereof in accordance with this Plan and the PLC Litigation Trust Agreement, and conclusion of all matters relative to the administration of the PLC Litigation Trust, except for the filing of all final tax returns,

(ii) payment in full in Cash of the Allowed Claims of Holders of Allowed Claims for Classes 7 and 8, or (iii) three (3) years from the Effective Date; *provided, however*, subject to approval of the Bankruptcy Court upon a finding for cause shown that an extension is necessary for the purpose of the PLC Litigation Trust, the term of the PLC Litigation Trust may be extended for a finite period based upon the particular circumstances at issue. Each such extension must be approved by the Bankruptcy Court within six (6) months of the beginning of the extended term with written notice thereof to include the MRC/Marathon Plan Proponents and the Reorganized Entities.

8.13.2. Termination of the SPC Litigation Trust. The duties, responsibilities and powers of the SPC Litigation Trustee, and the SPC Litigation Trust, shall terminate on the earlier of (i) full resolution of all SPC Litigation Trust Assets transferred to the SPC Litigation Trust, Distribution of the SPC Litigation Trust Assets and the net proceeds thereof in accordance with this Plan and the SPC Litigation Trust Agreement, and conclusion of all matters relative to the administration of the SPC Litigation Trust, except for the filing of all final tax returns, (ii) payment in full in Cash of the Allowed Claims of Holders of Allowed Claims for Classes 6, 8 and 9, or (iii) three (3) years from the Effective Date; *provided, however*, subject to approval of the Bankruptcy Court upon a finding for cause shown that an extension is necessary for the purpose of the SPC Litigation Trust, the term of the SPC Litigation Trust may be extended for a finite period based upon the particular circumstances at issue. Each such extension must be approved by the Bankruptcy Court within six (6) months of the beginning of the extended term with written notice thereof to include the MRC/Marathon Plan Proponents and the Reorganized Entities. The Timber Notes Indenture Trustee shall receive notice of the filing of any such request for extension.

IX.

METHOD OF DISTRIBUTIONS UNDER THE PLAN AND CLAIMS RECONCILIATION

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

9.1.1. Distributions for Claims Allowed as of the Effective Date. Other than as set forth herein, all Distributions under this Plan to be made on the Effective Date to Holders of Claims that are Allowed as of the Effective Date shall be deemed made on the Effective Date if made on the Effective Date or as promptly thereafter as practicable, but in any event no later than: (a) 60 days after the Effective Date, or (b) such later date when the applicable conditions of Section 6.8 (Cure of Defaults) and Section 9.1.6 (Unclaimed/Undeliverable Distributions) are satisfied; *provided, however*, that (i) transfers of the Debtors' Assets to the Reorganized Entities, to the PLC Litigation Trust and to the SPC Litigation Trust shall be made on the Effective Date; (ii) Distributions to the Holders of Allowed Claims for Classes 6, 8 and 9 shall be made in accordance with the provisions of the SPC Litigation Trust Agreement and this Plan; and (iii) Distributions to the Holders of Allowed Claims for Classes 7 and 8 shall be governed by the PLC Litigation Trust Agreement and this Plan.

9.1.2. Distributions for Claims Allowed after the Effective Date. On each Quarterly Payment Date, the PLC Litigation Trustee, SPC Litigation Trustee, or the Reorganized Entities, as the case may be, shall make all distributions that become deliverable to Holders of Allowed Claims during the preceding calendar quarter.

9.1.3. Delivery of Distributions. All Distributions to be made under this 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 at the addresses set forth in any written certification of address change delivered to the Disbursing Agent after the date of filing of such 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' Schedules or Debtors' books and records.

9.1.4. Timing of Distributions. Any payment or other Distribution required to be made under this 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. Any payment of Cash made pursuant to this Plan shall be deemed made when such payment by check or wire transfer is transmitted, or such other delivery of cash equivalents or readily marketable securities or instruments, including any auction rate securities, is made.

9.1.5. Minimum Cash Distributions. No Cash payment less than fifty dollars shall be made to any Holder of a Claim unless a request therefor is made in writing to the Reorganized Entities, the PLC Litigation Trustee, or the SPC Litigation Trustee, as the case may be.

9.1.6. Unclaimed/Undeliverable Distributions. If any Cash or other Distribution pursuant to this Plan to any Holder of an Allowed Claim is returned as undeliverable, no further Distributions to such Holder shall be made until such time as the Reorganized Entities, the PLC Litigation Trustee, or the SPC Litigation Trustee, as the case may be, is notified by written certification of such Holder's then-current address, at which time Distributions to such Holder shall be made without interest.

9.1.7. Failure to Claim Undeliverable Distributions. Any Holder of an Allowed Claim that does not assert a claim pursuant to this Plan for an undeliverable Distribution within one year after the Distribution was initially attempted shall have its claim for such undeliverable Distribution discharged and such Distributions shall be deemed to be unclaimed property under section 347(b) of the Bankruptcy Code. After such date, all Cash or other Distribution shall be forfeited and transferred to or retained by the Reorganized Entities, the PLC Litigation Trustee, or the SPC Litigation Trustee, as the case may be, that attempted such payment free from any restrictions thereon, and the claim of any Holder to such Cash or other Distribution pursuant to this Plan shall be discharged and forever barred. Any Holder shall be forever barred from asserting any such claim against the Reorganized Entities. Nothing contained in this Plan shall require the Reorganized Entities, the PLC Litigation Trustee, or the SPC Litigation Trustee, to attempt to locate any Holder of an Allowed Claim. Unclaimed and undeliverable Distributions from the PLC Litigation Trust or the SPC Litigation Trust to the Holders of PLC Litigation Trust Participations or SPC Litigation Trust Participations shall be governed by the PLC Litigation Trust Agreement or the SPC Litigation Trust Agreement, respectively.

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

9.1.9. Setoff Rights. The Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee, as applicable, may, but shall not be required to, setoff against or recoup from the Holder of any Allowed Claim on which payments or other Distributions are to be made hereunder, claims of any nature that the Debtors, the Reorganized Entities, the PLC Litigation Trust, or the SPC Litigation Trust, 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 Plan, shall constitute a waiver or release of any such claim, right of setoff or right of recoupment against the Holder of such Allowed Claim.

9.2. Claims Administration Responsibility.

9.2.1. Right to Object to Claims. The Debtors and the Reorganized Entities, as the case may be, have the responsibility and authority for administering, disputing, objecting to, compromising and settling or otherwise resolving and finalizing Distributions (if any) with respect to all Claims; *provided, however,*

(i) with respect to Class 7 Claims, the PLC Litigation Trustee as set forth in the PLC Litigation Trust Agreement shall have the responsibility and authority for administering, disputing, objecting to, compromising and settling or otherwise resolving and finalizing Distributions (if any) with respect to such Claims;

(ii) with respect to Class 8 Claims, the PLC Litigation Trustee as set forth in the PLC Litigation Trust Agreement shall have the responsibility and authority for administering, disputing, objecting to, compromising and settling or otherwise resolving and finalizing

Distributions (if any) with respect to such Claims; *provided, however*, in the event a Holder of Allowed Class 8 Claims is not paid in full on account of its Claim from its Pro Rata Share of \$500,000 from the PLC Litigation Trust and receives a SPC Litigation Trust Participation, with respect to such SPC Litigation Trust Participation, the SPC Litigation Trustee shall have the responsibility and authority for administering, and finalizing Distributions (if any) with respect to such Claim; and

(iii) with respect to Class 9 Claims, the SPC Litigation Trustee as set forth in the SPC Litigation Trust Agreement shall have the responsibility and authority for administering, disputing, objecting to, compromising and settling or otherwise resolving and finalizing Distributions (if any) with respect to such Claims.

The Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee, as the case may be, also shall 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 MRC/Marathon Plan Proponents, the Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee, as applicable, may, at any time, request that the Bankruptcy Court estimate any contingent or unliquidated Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors have previously objected to such Claim.

9.2.2. *Claims Objection Deadline.* The Debtors, the Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee, 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 the Debtors, the Reorganized Entities, the PLC Litigation Trustee, as the case may be, without notice or a hearing.

9.2.3. *Compromise and Settlements.* From and after the Effective Date, and without any further approval by the Bankruptcy Court, the Reorganized Entities, the PLC Litigation Trustee, and the SPC Litigation Trustee, as applicable, may compromise and settle any Claims and Causes of Action against the respective Debtors or their respective Estates.

9.3. Process for Disputing Claims.

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

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

9.3.3. *Distributions After Allowance.* On each Quarterly Distribution Date after a Disputed Claim becomes an Allowed Claim, the Reorganized Entities, as applicable, 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; *provided, however*, Distributions from the PLC Litigation Trust and the SPC Litigation Trust on account of any Disputed Claim that has become an Allowed Claim shall be governed by the PLC Litigation Trust Agreement and SPC Litigation Trust Agreement, respectively.

X.
EFFECT OF CONFIRMATION OF PLAN

10.1. Discharge.

10.1.1. Discharge of Claims Against the Debtors and the Reorganized Entities. On the Effective Date, except as otherwise expressly provided in this Plan (i.e. Section 2.5) or the Confirmation Order, the Confirmation of this Plan shall as of the Effective Date: (i) discharge the Debtors, the Reorganized Entities and any of their Assets from all Claims demands, liabilities, other debts and Interests that arose on or before the Effective Date, including, without limitation, 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 Plan; and (ii) preclude all Persons from asserting against the Debtors, the Reorganized Entities or any of their Assets any other or further Claims or Interests based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date, all pursuant to sections 524 and 1141 of the Bankruptcy Code. The discharge provided in this provision shall void any judgment obtained against any of the Debtors at any time, to the extent that such judgment relates to a discharged Claim or cancelled Interest.

10.1.2. Injunction Related to the Discharge. Except as otherwise provided in this Plan (i.e. Section 2.5) or the Confirmation Order, all entities that have held, currently hold or may hold Claims or other debts or liabilities against the Debtors or an Interest or other right of an equity security Holder in any or all of the Debtors that are discharged pursuant to the terms of this 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 Plan; (ii) enforcing, attaching, collecting or recovering in any manner any judgment, award decree or order against the Debtors, the Reorganized Entities or any of their Assets on account of any such Claim debt, liability, Interest or right; (iii) creating, perfecting or enforcing any Lien or encumbrance against the Debtors, the Reorganized Entities or any of their Assets on account of any such Claim debt liability, Interest or right; (iv) asserting any right of setoff subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtors, the Reorganized Entities 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 Plan or the Confirmation Order. Such injunction shall extend to any successor of the Debtors, the Reorganized Entities and any of their Assets. Any entity injured by a willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages from the willful violator.

10.2. Releases.

10.2.1. Releases by the Debtors. On and as of the Effective Date, for good and valuable consideration the adequacy of which is hereby confirmed, the Debtors in their individual capacity and as debtors-in-possession shall be deemed to release and forever waive and discharge all Claims obligations, suits, judgments, damage demands, debts, rights, Causes of Action and liabilities whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date (including prior to the Petition Date) in any way relating to the Debtors, the Reorganization Cases, this Plan or the Disclosure Statement and that could have been asserted by or on behalf of the Debtors or their Estates at any time up to immediately prior to the Effective Date against the Released Parties.

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

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

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

10.2.3. Preservation of Rights of Action by the Debtors and the Reorganized Entities. *Except as provided in this Plan or in any contract, instrument, release or other agreement entered into or delivered in connection with this Plan, in accordance with section 1123(b) of the Bankruptcy Code and to the fullest extent possible under applicable law, the Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee, as the case may be, shall retain and may enforce, and shall have the sole right to enforce, any claims, demands, rights and Causes of Action that any Debtor or Estate may hold against any Entity, as appropriate. The Reorganized Entities, the PLC Litigation Trustee and the SPC Litigation Trustee or their successors, as the case may be, may pursue such retained claims, demands, rights or Causes of Action, as appropriate, in accordance with the best interests of the Reorganized Entities, the PLC Litigation Trust, the SPC Litigation Trust or their successors, as the case may be, holding such claims, demands, rights or Causes of Action. Further, the Reorganized Entities, as the case may be, retain their rights to file and pursue, and shall have the sole right to file and pursue any adversary proceedings against any account debtor related to debit balances or deposits owed to any Debtor.*

10.2.4. Injunction Related to Releases. *To the fullest extent allowed by law, and except as otherwise provided in this Plan (i.e. Section 2.5) 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 Section 10.2.1 of this Plan 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 Plan or the Confirmation Order. Such injunction shall extend to any successor of any Released Party or any of its or their Assets. Any Entity injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages from the willful violator.*

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

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

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

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

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

10.4. No Liability for Solicitation or Participation. None of the MRC/Marathon Plan Proponents, the Reorganized Entities, the Administrative Agent and the lenders under the Term Loan Agreement, dated as of July 18, 2006, the Administrative Agent and the lenders under the Revolving Credit Agreement, dated as of July 18, 2006, and the Administrative Agent and lenders under the Debtor-In-Possession Revolving Credit Agreement dated as of August 6, 2007, nor any of their respective current members, partners, officers, directors, employees, affiliates, agents and advisors (including any attorneys, financial advisors, investment bankers, accountants and other professionals retained by such Persons) shall have or incur any liability to any Holder of any Claim or Interest for any act or omission in connection with, or arising out of the Plan, the Reorganization Cases, the Disclosure Statement, the Palco DIP Loan, the Exit Financing, any agreements relating to the foregoing or with respect to the transactions contemplated hereunder or thereunder, the solicitation of votes for and the pursuit of the Plan, the consummation of the Plan or the administration of the Plan or the property to be distributed under the Plan, including, without limitation, all documents ancillary thereto, all decisions, actions, inactions and alleged negligence or misconduct relating thereto and all pre-petition activities leading to the promulgation and Confirmation of the Plan, except willful misconduct or gross negligence as determined by a Final Order of the Bankruptcy Court. The foregoing parties shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

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

10.6. Release of Liens. Except as otherwise expressly provided in this Plan or in any contract, instrument, indenture or other agreement or document expressly incorporated by reference in this Plan, upon the occurrence of the Effective Date, the Confirmation Order shall release any and all Liens other than as otherwise provided in this Plan; *provided, however*, that this provision shall not prevent Liens from attaching to the Reorganized Entities' Assets or being retained by the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims each as provided for by this Plan, the Exit Financing or otherwise.

10.7. Term of Injunctions. All injunctions or stays provided in, or in connection with, the Reorganization Cases, whether pursuant to section 105 of the Bankruptcy Code, section 362 of the Bankruptcy Code, 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 Plan, the Confirmation Order or by their own terms. In addition, on and after Confirmation Date, the Plan Proponents may seek further orders to preserve the status quo during the time between the Confirmation Date and the Effective Date.

10.8. Binding Effect. Upon the occurrence of the Effective Date, this Plan shall be binding upon, and inure to the benefit of, the estates of the Debtors, the MRC/Marathon Plan Proponents, the Reorganized Entities 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 Plan, whether or not such Holders have accepted this Plan and whether or not the treatment of such Holders Claims and Interests under this Plan provides for any Distribution to such Holder.

10.9. 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 applications for reimbursement of reasonable fees and expenses of Committee Professionals and Committee members, and the Professionals retained by the Committee shall be entitled to reasonable compensation for services performed and reimbursement of reasonable expenses incurred in connection therewith. Upon dissolution of the Committee, the members of the Committee shall be released and discharged of and from all duties, responsibilities and obligations related to and arising from and in connection with the Reorganization Cases.

10.10. Retention of Professionals after the Effective Date. After the Effective Date, no Professional employed pursuant to sections 327 through 331 of the Bankruptcy Code shall be entitled to any compensation without the express written permission of the MRC/Marathon Plan Proponents and the Reorganized Entities. Upon the Effective Date, the retention of all such Professionals shall be terminated automatically without further Order of the Bankruptcy Court, except for the limited purposes of filing any remaining applications for reimbursement of reasonable fees and expenses. The Reorganized Entities, as the case may be, shall be authorized to employ and compensate professionals in the ordinary course of business and without the need for Bankruptcy Court approval.

XI. EFFECTIVENESS OF THE PLAN

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

11.1.1. Conditions to Confirmation.

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

11.1.1.2. Plan Supplement. The Plan Documents to be provided in the Plan Supplement are in a form that is satisfactory to the MRC/Marathon Plan Proponents.

11.1.2. Conditions to Effective Date.

11.1.2.1. Confirmation Order. At least ten days shall have passed after the Bankruptcy Court shall have entered the Confirmation Order in form and substance acceptable to the MRC/Marathon Plan Proponents.

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

11.1.2.3. Receipt of Required Authorization. All authorizations, consents and regulatory approvals necessary to effectuate this Plan shall have been obtained.

11.1.2.4. Required Transactions. All transactions required by this Plan have been completed to the satisfaction of the MRC/Marathon Plan Proponents.

11.2. Waiver of Conditions. The conditions to confirmation set forth in Section 11.1.1 above and the conditions to the Effective Date set forth in Section 11.1.2 above may be waived in whole or part by written agreement of both MRC and Marathon, each in its sole discretion, at any time without an order of the Bankruptcy Court.

11.3. Effect of Failure of Conditions. In the event that the conditions specified in Section 11.1 above have not been satisfied or duly waived in accordance with Section 11.2 above on or before 60 days after the Confirmation Date, then without an order of the Bankruptcy Court: (a) this 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 (60) days after such date; *provided, however,* that such 60 day period may be extended by written agreement of both MRC and Marathon, each in its sole discretion, at any time prior to the end of such period without an order of the Bankruptcy Court.

**XII.
RETENTION OF JURISDICTION**

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

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

12.1.2. hear and rule upon all Causes of Action retained by the Reorganized Entities, the PLC Litigation Trust and the SPC Litigation Trust and commenced and/or pursued by the Debtors, the Reorganized

Entities, the PLC Litigation Trust or the SPC Litigation Trust, as the case may be, provided that such Causes of Action are properly before the Bankruptcy Court;

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

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

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

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

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

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

12.1.9. hear and determine all applications for compensation and reimbursement of expenses of Professionals under this 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;

12.1.10. issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Entity with consummation of this Plan, implementation or enforcement of this Plan or the Confirmation Order, including designating one or more Persons under Fed. R. Bankr. P. 7070 and F. R. Civ. P. 70;

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

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

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

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

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

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

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

XIII. MISCELLANEOUS PROVISIONS

13.1. **Plan Supplement.** No later than ten (10) days prior to the Voting Deadline, the MRC/Marathon Plan Proponents 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 Plan. Holders of Claims or Interests may obtain a copy of the Plan Supplement upon written request to the MRC/Marathon Plan Proponents' counsel and such request may be fulfilled by providing an electronic copy of the Plan Supplement by electronic mail or otherwise.

13.2. **Authorization of Effectuating Documents and Further Transactions.** The Debtors' officers are authorized and directed pursuant to section 1142(b) of the Bankruptcy Code in accordance with their authority under the applicable governing documents and under the supervision of the MRC/Marathon Plan Proponents, the Reorganized Entities or any of such entities' 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 Plan and the debt and equity securities issued pursuant to this Plan.

13.3. **Exemption from Transfer Taxes.** Pursuant to section 1146(a) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under this 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 Plan, shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax.

13.4. **Exemption for Registration Requirements.** Pursuant to section 1145 of the Bankruptcy Code, the offering, issuance and Distribution of any securities contemplated by this 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 Plan shall be tradable by the recipients thereof, subject to (i) the provisions of section 1145(b)(1) of the Bankruptcy Code; and (ii) the restrictions, if any, on the transferability of such securities and instruments.

13.5. **Statutory Fees.** All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date and thereafter, (i) with respect to such fees payable by the Palco Debtors, by the PLC Litigation Trustee in accordance with the PLC Litigation Trust Agreement, and (ii) with respect to such fees payable by Scopac, by the SPC Litigation Trustee in accordance with the SPC Litigation Trust Agreement .

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

13.7. Amendment or Modification of Plan. As provided in section 1127 of the Bankruptcy Code, modification of this Plan may be proposed in writing by the MRC/Marathon Plan Proponents at any time before Confirmation, provided that this Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code, and the MRC/Marathon Plan Proponents shall have complied with section 1125 of the Bankruptcy Code. As a result of any such modification, the Committee may, in its sole discretion, withdraw as a Plan Proponent. Either the MRC/Marathon Plan Proponents or Newco may modify this Plan at any time after Confirmation and before consummation of this Plan, provided that this 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 Plan as modified, under section 1129 of the Bankruptcy Code, and the circumstances warrant such modifications. As a result of any such modification, the Committee may, in its sole discretion, withdraw as a Plan Proponent. A Holder of a Claim that has accepted this Plan shall be deemed to have accepted such Plan as modified if the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim or Interest of such Holder.

13.8. Severability. In the event that the Bankruptcy Court determines, prior to the Confirmation Date, that any provision in this Plan is invalid, void or unenforceable, MRC/Marathon Plan Proponents may, at its 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 Plan, or (b) alter, amend, revoke, or withdraw this Plan.

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

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

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

13.11. Governing Law. Except to the extent that federal law (including, but not limited to, the Bankruptcy Code and the Bankruptcy Rules) is applicable or this Plan provides otherwise, the rights and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York without giving effect to its conflicts of law principles.

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

Mendocino Redwood Company, LLC
1360 19th Hole Drive, Suite 200
Windsor, CA 95492
Attention: Richard Higgenbottom, Chief Executive Officer
E-mail: *rhiggenbottom@mendoco.com*
Telecopy: (707) 485-7918

with a copy to:

Sansome Partners, LLC
One Maritime Plaza, 14th Floor
San Francisco, California 94111
Attention: Alexander L. Dean
Email: *sandy@sansome.com*
Telecopy: (415) 288-0549

and

Goodwin Procter LLP
The New York Times Building
620 Eighth Avenue
New York, NY 10018-1405
Attention: Allan S. Brilliant, Esq.
Craig P. Druehl, Esq.
E-mail: *abrilliant@goodwinprocter.com*
cdruehl@goodwinprocter.com
Telecopy: (212) 355-3333

and

Perkins Coie LLP
131 South Dearborn Street, Suite 1700
Chicago, IL 60603-5559
Attention: Kenneth M. Crane, Esq.
Peter G. Lawrence, Esq.
E-mail: *KCrane@perkinscoie.com*
PLawrence@perkinscoie.com
Telecopy: (312) 324-9400

and

Marathon Structured Finance Fund L.P.
461 Fifth Avenue 14th Floor
New York, NY 10017
Attention: Greg Florio.
E-mail: *gflorio@marathonfund.com*
Telecopy: (212) 381-4495

with a copy to:

Winston & Strawn LLP
200 Park Avenue
New York, NY 10166
Attention: David Neier, Esq.
Carey D. Schreiber, Esq.
E-mail: *dneier@winston.com*
cschreiber@winston.com
Telecopy: (212) 294-4700

and

Official Committee of Unsecured Creditors
c/o Pachulski Stang Ziehl & Jones LLP
150 California Street, 15th Floor
San Francisco, California 94111-4500
Attention: John D. Fiero, Esq.
Maxim B. Litvak, Esq.
E-mail: *jfiero@pszjlaw.com*
mlitvak@pszjlaw.com
Telecopy: (415) 263-7010

13.13. Interest and Attorneys' Fees. Interest accrued after the Petition Date shall accrue and be paid on Claims only to the extent specifically provided for in this 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 Plan or as ordered by the Bankruptcy Court.

13.14. Binding Effect. This Plan shall be binding upon the Debtors, the Reorganized Entities, 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 Plan, the terms of this Plan shall be binding and conclusive.

13.15. No Admissions. As to contested matters, adversary proceedings and other Causes of Action or threatened Causes of Actions, nothing in this Plan, the 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 Plan shall not be construed to be conclusive advice on the tax, securities, and other legal effects of this Plan as to Holders of Claims against, or Interests in, the Debtors or any of their subsidiaries and affiliates, as debtors and debtors-in-possession in these Reorganization Cases.

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

[SIGNATURE PAGE FOLLOWS]

The undersigned have executed this First Amended Joint Plan of Reorganization, as Further Modified, with Technical Modifications, as of the 8th day of July, 2008.

Respectfully submitted,

Mendocino Redwood Company, LLC, as Plan
Proponent

Marathon Structured Finance Fund L.P., as Plan
Proponent

By: _____
Name:
Title:

By: _____
Name:
Title:

Official Committee of Unsecured Creditors, as Plan Proponent

By: _____
Name:
Title:

**APPENDIX A TO MRC/MARATHON FIRST AMENDED PLAN,
AS FURTHER MODIFIED, WITH TECHNICAL MODIFICATIONS**

UNIFORM GLOSSARY OF DEFINED TERMS FOR PLAN DOCUMENTS

**APPENDIX A TO MRC/MARATHON FIRST AMENDED PLAN, AS FURTHER MODIFIED, WITH
TECHNICAL MODIFICATIONS**

Uniform Glossary of Defined Terms for Plan Documents

Unless the context otherwise requires, the following terms, when used in initially capitalized form in the Disclosure Statement, related exhibits, and Plan Documents, shall have the following meanings. Such meanings shall be equally applicable to both the singular and plural forms of such terms. Any term used in capitalized form that is not defined herein but that is defined in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning ascribed to such term by the Bankruptcy Code or the Bankruptcy Rules (with the Bankruptcy Code controlling in the event of a conflict or ambiguity). Certain defined terms used in only one Section of the Disclosure Statement are defined in such Section. The rules of construction set forth herein and in section 102 of the Bankruptcy Code shall apply. All references to the "Plan" shall be construed, where applicable, to include references to the Plan and all its exhibits, appendices, schedules, supplements and annexes (and any amendments made in accordance with their terms or applicable law).

A-1 Timber Notes means Scopac's 6.55% Series B Class A-1 Timber Collateralized Notes due 2028, with an original principal amount of \$160.7 million.

A-2 Timber Notes means Scopac's 7.11 % Series B Class A-2 Timber Collateralized Notes due 2028, with an original principal amount of \$243.2 million.

A-3 Timber Notes means Scopac's 7.71 % Series B Class A-3 Timber Collateralized Notes due 2028, with an original principal amount of \$463.3 million.

Administrative Expense means (a) any cost or expense of administration of the Reorganization Cases incurred before the Effective Date and allowable under section 503(b) of the Bankruptcy Code (including without limitation (x) claims arising under sections 503(b)(3), 503(b)(4) and 503(b)(9) of the Bankruptcy Code and (y) claims asserted by members of the Committee for reimbursement of actual, necessary expenses pursuant to section 503(b)(3)(F) of the Bankruptcy Code which Committee members are permitted to assert) and entitled to priority under section 507(a)(2) of the Bankruptcy Code including, without limitation, (i) any actual and necessary post-petition cost or expense of preserving the Estates or operating the businesses of the Debtors, (ii) any payment required to cure a default on an Assumed Contract, (iii) any post-petition cost, indebtedness, or contractual obligation duly and validly incurred or assumed by a Debtor in the ordinary course of its business, and (iv) compensation or reimbursement of expenses of professionals to the extent allowed by the Bankruptcy Court under sections 330(a) or 331 of the Bankruptcy Code and (b) any fee or charge assessed against the Estates under 28 U.S.C. § 1930.

Administrative Expense Claim means any Claim for the payment of an Administrative Expense.

Administrative Expense Claims Bar Date means the thirtieth day after the Effective Date or such other date as may be fixed by order of the Bankruptcy Court.

Affiliate has the meaning set forth in section 101(2) of the Bankruptcy Code.

Allowed means Bankruptcy Court approval of a Claim or Interest.

Allowed Amount of any Claim or Interest means the amount at which that Claim or Interest is Allowed.

Allowed Claim; Allowed Interest means any Claim or Interest in any of the Debtors or their respective Estates, (i) proof of which was filed on or before the Bar Date (defined below), (ii) if no such proof of Claim or Interest has been timely filed, which has been or hereafter is listed by such Debtor in its Schedules as liquidated in amount and not disputed or contingent or (iii) any Interest registered in the stock or membership register, as the case may be, maintained by or on behalf of the Debtor as of the Record Date, in each such case in clauses (i), (ii) and (iii) above, a Claim or Interest as to which no objection to the allowance thereof, or action to equitably subordinate or otherwise seek recovery from the Holder of the Claim or Interest, has been interposed within the applicable period of

limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order, or as to which an objection has been interposed and such Claim has been allowed in whole or in part by a Final Order.

Assets means all property in which a Debtor holds a legal or equitable interest, including all property described in 11 U.S.C. § 541 and all property disclosed in such Debtor's respective Schedules and the Disclosure Statement.

Assumed Contracts means, collectively, an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code that is identified in the Plan Supplement and which either of the Reorganized Entities intends to assume pursuant to the Plan.

Avoidance Actions means any claim or Cause of Action or right under chapter 5 of the Bankruptcy Code, including all fraudulent-conveyance and fraudulent-transfer laws, all non-bankruptcy laws vesting in creditors' rights to avoid, rescind or recover on account of transfers, all preference laws, the Uniform Fraudulent Transfer Act, state laws of similar import and the proceeds thereof.

Ballot means each of the ballot forms for voting to accept or reject the Plan distributed to all Holders of Impaired Claims entitled to vote on the Plan.

Balloting and Claims Agent means Logan & Company, Inc.

Bank of America means Bank of America, N.A., as lender and as agent for itself and any other lender parties to the Scopac Loan Agreement.

Bankruptcy Code means title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.*, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made, to the extent applicable to the Reorganization Cases.

Bankruptcy Court means the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division, or such other court having jurisdiction over the Reorganization Cases.

Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure and the local rules and general orders of the Bankruptcy Court, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made applicable to the Reorganization Cases.

BAPCPA means the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub.L. 109-8, 119 Stat. 51 (2005).

Bar Date means the date(s) by which any Entity asserting certain Claims against the Debtors must have filed a Proof of Claim or be forever barred from asserting such Claims against the Debtors or their Estates, as established by any order(s) of the Bankruptcy Court or the Plan.

Bar Date Order means the order entered by the Bankruptcy Court establishing July 17, 2007 as the general Bar Date and August 17, 2007 as the Bar Date applicable to Governmental Units, and any subsequent order by the Bankruptcy Court amending, revising, rescinding or superseding the same, including but not limited to the Supplemental Bar Date Order.

Britt means Britt Lumber Co., Inc., a wholly owned subsidiary of Palco.

Business Day means any day other than a Saturday, Sunday, or legal holiday (as such term is defined in Bankruptcy Rule 9006(a)).

California Permits means the Permits issued by California pursuant to the HCP.

Cash means United States Dollars in the form of checks drawn on available funds or wire transfers of immediately available funds.

Causes of Action means all causes of action, rights, Claims, and demands against any Persons that the Debtors or their Estates own or have an interest in or can assert in any fashion, or which could be asserted by the Debtors on behalf of any Creditor or Creditor representative under the Bankruptcy Code as Debtors in Possession, including but not limited to actions under 11 U.S.C. § 510 to subordinate Claims.

CDF means the California Department of Forestry and Fire Protection.

CDF Harvest Limit means the applicable annual harvest limit established by the CDF for each watershed.

Claim has the meaning set forth in section 101(5) of the Bankruptcy Code, against any Debtor or any Estate whether or not asserted.

Claimant means the Holder of a Claim.

Class means a category of Holders of Claims or Interests, as set forth in Articles III of the Plan pursuant to section 1122 of the Bankruptcy Code.

Class 6 Distribution Adjustment means, subject to the limitation contained Section 4.6.2.1 of the Plan, a reduction dollar for dollar by the amount determined by the following equation: (a) the sum of (i) the Allowed Scopac Loan Claim and (ii) any postpetition financing provided to Scopac and (iii) any Other Secured Claim required to be paid under the Plan by Scopac, in excess of the fair market value as of the Effective Date of any cash, auction rate securities or other assets in the SAR Account as of the Effective Date; plus (b) the sum of accrued but unpaid Scopac Administrative Expense Claims in excess of \$5,000,000, as such claims may be estimated as of the Effective Date; minus (c) any accrued but unpaid receivables arising after the Petition Date owed from Palco to Scopac net of any accrued but unpaid receivables arising after the Petition Date owed from Scopac to Palco as of the Effective Date.

Collateral means any property or interest in property of an Estate that is subject to a Lien to secure the payment or performance of a Claim, which Lien is not subject to avoidance or otherwise invalid under the Bankruptcy Code or applicable state law.

Committee means the Official Committee of Unsecured Creditors for the Debtors appointed by the U.S. Trustee on January 25, 2007, as presently constituted.

Confirmation, Confirmation of the Plan, or Plan Confirmation means the approval of the Plan by the Bankruptcy Court at the Confirmation Hearing.

Confirmation Date means the date on which the Confirmation Order is entered on the docket of the Bankruptcy Court.

Confirmation Hearing means the hearing held by the Bankruptcy Court pursuant to section 1128 of the Bankruptcy Code to consider Confirmation of the Plan, as such hearing may be adjourned or continued from time to time.

Confirmation Order means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 and other applicable sections of the Bankruptcy Code.

Creditor means any Person or Entity holding a Claim against a Debtor's Estate or pursuant to section 102(5) of the Bankruptcy Code against property of the Debtor that arose or is deemed to have arisen on or prior to the Petition Date.

Debtor means any of the Palco Debtors or Scopac.

Debtors means the Palco Debtors and Scopac.

Deficiency Claim means a Claim of a Claimant that asserts a Secured Claim against one or more of the Debtors equal to the amount by which such Claim exceeds the Allowed Secured Claim.

DIP Order means the Bankruptcy Court's order dated July 31, 2007 authorizing the Palco Debtors to enter into the Palco DIP Facility.

Disclosure Statement means the Joint Disclosure Statement in Support of the Respective Plans of Reorganization Proposed by (1) Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.; (2) The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes; and (3) the Debtors and Maxxam Inc., Maxxam Group Holdings Inc., and Maxxam Group Inc., dated February 29, 2008, including all exhibits attached thereto or referenced therein, as submitted pursuant to section 1125 of the Bankruptcy Code and approved by the Bankruptcy Court, as such Joint Disclosure Statement may be further amended, supplemented, or modified from time to time.

Disputed Claim means a Claim that is not an Allowed Claim, including a Claim that is, in whole or in part: (a) listed on the Schedules as, or proof of which is filed as, unliquidated, disputed or contingent; (b) as to which a Proof of Claim designating such Claim as liquidated in amount and not contingent was not timely and properly filed; (c) as to which a Debtor, Reorganized Entity, or other party in interest has filed a timely objection or request for estimation in accordance with the Bankruptcy Code and Bankruptcy Rules; or (d) is otherwise disputed by a Debtor, a Reorganized Entity or other party in interest in accordance with applicable law, which objection, request for estimation or dispute has not been withdrawn or determined by a Final Order.

Distribution means any distribution by or on behalf of the Debtors, the Reorganized Entities, the PLC Litigation Trust and the SPC Litigation Trust to the Holders of Allowed Claims pursuant to the Plan.

Distribution Date, when used with respect to each Claim and Interest, means as soon as practicable after the later of (a) the Effective Date, (b) the date a Claim becomes payable pursuant to any agreement between the Debtors (or, upon the occurrence of the Effective Date, the Reorganized Entities, as the case may be), or (c) solely with respect to Disputed Claims and Disputed Interests as of the Effective Date, no later than 30 days after the date upon which the Claim or Interest becomes an Allowed Claim or Allowed Interest.

Effective Date means the date specified by the Plan Proponents in a notice filed with the Bankruptcy Court as the date on which this Plan shall take effect, and which occurs after (i) the Confirmation Order becomes a Final Order; and (ii) each of the conditions precedent to the Effective Date provided for in Article XI of the Plan have been satisfied or waived.

Entity has the meaning set forth in section 101(15) of the Bankruptcy Code.

Environmental Obligations means, with respect to any Debtor or Reorganized Entity such entity or entities' obligations to Governmental Units to comply, complete, perform, satisfy and/or provide for satisfaction of pre-petition, current, ongoing, executory and/or future regulatory or statutory obligations, including, without limitation, (i) approved THPs, WWDRs, Cleanup and Abatement Orders, Streambed Alteration Agreements, and related permits or authorizations, and may include for example, requirements for completion or correction, monitoring and reporting, winterization, drainage improvement, restoration, inspection, study; (ii) the California State and federal ITPs, which include the HCP, and the associated Implementation Agreement (the "IA"), and the Agreement Relating to Enforcement of AB 1986; (iii) consistency determinations under the California Endangered Species Act that are based upon the federal ITPs, including the HCP and the IA; and (iv) those obligations described in the Claims filed by the California Resources Agency, the California Department of Forestry and Fire Protection, the California Department of Fish and Game, the California Wildlife Conservation Board, the California State Water Resources Board, the California Regional Water Quality Control Board, North Coast Region, the U.S. Fish and Wildlife Services, the U.S. Department of the Interior, the National Marine Fisheries Service, and the U.S. Department of Commerce.

Environmental Plans means the HCP.

EPA means the Federal Environmental Protection Agency.

Equity Interests or Interests means the rights of the Holders of the equity securities of a Debtor.

Estate means the legal entity administering the property of a Debtor, in its capacity as a debtor in possession, between the Petition Date and the Effective Date, created pursuant to section 541 of the Bankruptcy Code.

Exculpated Parties means (i) the Plan Proponents and their respective officers, directors, professionals, members, agents and employees, (ii) the Reorganized Entities and their respective officers, directors, professionals, members, agents and employees, and (iii) the Committee, its members and Professionals.

Exit Financing means the proposed financing discussed in Section 7.8 of the Plan.

Final Order means an order of a court: (a) as to which the time to appeal, petition for writ of certiorari, or otherwise seek appellate review or to move for reargument, rehearing, reconsideration or stay has expired and as to which no appeal, petition for writ of certiorari, or other appellate review, or proceedings for reargument, rehearing, reconsideration or stay shall then be pending; or (b) as to which any right to appeal, petition for certiorari, or move for reargument, rehearing or stay shall have been waived in writing by all parties with such right; or (c) in the event that an appeal, writ of certiorari, or other appellate review or reargument, rehearing, reconsideration or stay thereof has been sought, which order shall have been affirmed by the highest court to which such order was appealed or from which writ of certiorari or other appellate review or reargument, rehearing, reconsideration or stay was sought, and as to which the time to take any further appeal, to petition for writ of certiorari, to otherwise seek appellate review, and to move for reargument, rehearing, reconsideration or stay shall have expired; *provided, however*, that the possibility that a motion under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure or under section 1144 of the Bankruptcy Code, or any analogous rule under the Bankruptcy Rules, may be filed with respect to such order shall not cause such order not to be a Final Order.

General Unsecured Claim means a Claim against a Debtor that is not a Secured Claim, an Administrative Expense Claim, a Trade Claim, a Priority Tax Claim, an Other Priority Claim, a Non-Debtor Affiliate Claim or a Professional Compensation Claim (but shall not include Claims that are disallowed or released, whether by operation of law or pursuant to order of the Bankruptcy Court, written release or settlement, the provisions of the Plan or otherwise), which Claims are classified in Classes 7, 8 and 9 and treated under Article IV of the Plan; *provided, however*, that the term "General Unsecured Claim" shall not include (i) the Palco DIP Loan Claim, and (ii) the Palco Term Loan Claim.

Governmental Unit has the meaning ascribed to such term in section 101(27) of the Bankruptcy Code.

HCP means the Habitat Conservation Plan for the Properties of Pacific Lumber, Scotia Pacific, and Salmon Creek Corporation, dated February, 1999 approved in March 1999 in connection with consummation of the Headwaters Agreement, which covers multiple species and encompasses substantially all of the Timberlands.

Headwaters Agreement means the agreement among Palco, Scopac, Salmon Creek, the United States, and California pursuant to which the those companies transferred to the United States government 5,600 acres of timberlands in exchange for \$300 million, approximately 7,700 acres of timberlands, and federal and state government-approved habitat conservation and sustained yield plans.

Headwaters Litigation means the claim filed by Palco and Scopac with the Claims Board against the North Coast Water Board, the State Water Board and the State of California (Claim No. G558159) alleging that the defendants have substantially impaired the contractual and legal rights of Palco and Scopac under the Headwaters Agreement, and the subsequent damages lawsuit entitled *The Pacific Lumber Company and Scotia Pacific Lumber Company LLC v. State of California, et al.* filed by Palco and Scopac in the Superior Court of Fresno County, California (No. CECG 0422).

Headwaters Timberlands means the 5,600 acres of timberlands transferred by Salmon Creek, Palco and Scopac to the United States government upon consummation of the Headwaters Agreement.

Holder means any Person holding an Interest or Claim.

Impaired means a Claim or a Class of Claims that is impaired within the meaning of section 1124 of the Bankruptcy Code.

Inter-Debtor Claim means any Claim held by any Debtor against any other Debtor, which claim is classified in Class 10 and treated under Article IV of the Plan.

Intercompany Contracts means any contract or agreement by or between any of the Debtors including, but not limited to, the following: (i) the New Reciprocal Rights Agreement; (ii) the New Master Purchase Agreement; (iii) the New Services Agreement; (iv) the New Additional Services Agreement; (v) the Master Lease Agreement; (vi) the Amended and Restated Lease; (vii) the Sales and Marketing Assistance Agreement; and (viii) the Development and Sales Assistance Agreement, as any of such agreements or contracts have been amended through the date of the Disclosure Statement.

Interim Compensation Order means the order entered by the Bankruptcy Court on January 24, 2007 establishing procedures for interim compensation and reimbursement of expenses of professionals of the Debtors and the Committee.

IRS means the Internal Revenue Service.

ITP means Incidental Take Permit, which authorizes certain actions that might otherwise constitute a prohibited "take" of an endangered or threatened species which is otherwise protected by the state and federal Endangered Species Acts.

LIBOR means London Interbank offered rate of interest.

Lien has the meaning set forth in section 101(37) of the Bankruptcy Code.

Liquidation Analysis means the liquidation analysis attached as Exhibit E to the Disclosure Statement.

Marathon means, collectively, Marathon Structured Finance Fund L.P. and certain of its affiliates that are lenders to the Palco Debtors

MAXXAM means MAXXAM Inc., MGHI's parent.

MGHI means MAXXAM Group Holdings Inc., MGI's parent.

MGI means, MAXXAM Group Inc., Palco's parent.

Mill or Scotia Mill means the lumber mill of Palco located in Scotia and operated by Palco, together with all Assets of the Debtors currently associated with or anticipated to be associated with Mill on and after the Effective Date.

Mill Working Capital means the marked-to-market value of the ordinary course current receivables and current inventories, less the amount of the current payables of Newco.

MMCAs means the marbled murrelet conservation areas and are also known as the Ancient Redwood Groves.

MRC means, collectively, Mendocino Redwood Company, LLC and certain of its affiliates.

MRC/Marathon Plan Proponents means, collectively, MRC and Marathon.

Newco means the Reorganized Entity that will include the assets of the Mill and the Timberlands, together with any and all Assets of the Debtors currently associated with or anticipated to be associated with Mill and the Timberlands on and after the Effective Date, provided that Newco will not own any of the Assets to be owned by Townco.

New Master Purchase Agreement means that certain agreement dated July 20, 1998 by and between Scopac and Palco governing the sale of Scopac Timber.

Non-Debtor Affiliate means any Entity that is an affiliate of any of the Debtors (other than another Debtor), within the meaning of section 101(2) of the Bankruptcy Code, including but not limited to MGI, MAXXAM Group Holdings Inc., and MAXXAM.

Non-Debtor Affiliate Claim means a Claim by a Non-Debtor Affiliate against a Debtor, including but not limited to the following Claims, which are collectively classified in Class 11: (i) Claims arising from those certain funds loaned by MGI to Palco during 2005 on an unsecured and subordinated basis totaling approximately \$6,000,000; (ii) Claims arising from those certain funds loaned by MGI to Palco during 2006 on an unsecured and subordinated basis totaling approximately \$30,900,000; (iii) Claims arising from the Lump Sum Purchases; and (iv) Claims arising from MAXXAM's provision of general and administrative assistance and other services to the Debtors, including risk-management services, accounting services, income tax reporting and compliance services, treasury and cash-management services, legal services and employee-benefit services general and administrative assistance and other services which, as of the Petition Date, totaled approximately \$1,782,542, and subsequent to the Petition Date totaled in excess of \$1,200,000.

North Coast Water Board means the California North Coast Regional Water Quality Control Board.

Option A means the plan for complying with California's sustained yield requirements, which has been approved by the California Department of Forestry and Fire Protection and is currently being relied on by Scopac to obtain approval of its THPs.

Option C means an alternative procedure for timber owners to comply with California's sustained yield requirements.

Ordinary Course Professionals Order means the order entered by the Bankruptcy Court on or about July 17, 2007 permitting the Debtors to employ professionals in the ordinary course of their business without the necessity of filing individual retention applications for each professional.

Other Priority Claim means a Claim (or portion thereof), if any, entitled to priority under section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim, an Administrative Expense Claim or a Professional Compensation Claim, which claim is classified in Class 1 and treated under Article IV of the Plan.

Other Secured Claim means any Secured Claim other than the following: (i) the Palco DIP Loan Claim; (ii) the Palco Term Loan Claim; (iii) the Scopac Loan Claim; and (iv) the Scopac Timber Note Secured Claims, which Claim, together with Secured Tax Claims are classified in Class 2 and treated under Article IV of the Plan.

Palco means The Pacific Lumber Company, a wholly owned subsidiary of MGI.

Palco DIP Loan means the senior secured debtor-in-possession financing provided to the Palco Debtors by Marathon pursuant to the Debtor-In-Possession Revolving Credit Agreement, dated as of August 6, 2007.

Palco DIP Loan Claim means a Claim arising under the Palco DIP Loan, which claim is classified in Class 3 and treated under Article IV of the Plan and which shall not include any Claim for any deficiency, which is waived by the Holder of such Claim in consideration for the releases and other good and valuable consideration given and embodied under the Plan.

Palco Debtors means, collectively, Palco, Britt, Salmon Creek, Scotia Inn, and Scotia Development.

Palco General Unsecured Claim means a General Unsecured Claim against Palco, which Claim is classified in Class 7 and treated under Article IV of the Plan together with Palco Trade Claims.

Palco Revolving Credit Agreement means that certain Revolving Credit Agreement, dated as of July 18, 2006 by and among Palco and Britt, as borrowers, and Marathon, as Administrative Agent and as a lender.

Palco Revolving Credit Facility means the five year \$60.0 million senior secured asset based revolving credit facility evidenced by the Palco Revolving Credit Agreement.

Palco Term Loan means the five year \$85.0 million senior secured term loan provided pursuant to the Palco Term Loan Agreement.

Palco Term Loan Agreement means that certain Term Loan Agreement, dated as of July 18, 2006, by and among Palco and Britt, as borrowers, and Marathon, as Administrative Agent and as a lender.

Palco Term Loan Claim means a Claim arising under the Palco Term Loan Agreement, which claim is classified in Class 4 and treated under Article IV of the Plan and which shall not include any Claim for any deficiency, which is waived by the Holder of such Claim in consideration for the releases and other good and valuable consideration given and embodied under the Plan.

Palco Trade Claim means a General Unsecured Claim against the Palco Debtors for goods, supplies, equipment, or services utilized by the Palco Debtors in the operation of their businesses, which Claim is classified in Class 7 and treated under Article IV of the Plan together with Palco General Unsecured Claims.

Pension Plan means any ongoing, defined benefit pension plans to which a Debtor is a contributing sponsor or member of a contributing sponsor's controlled group and to which Title IV of the Employee Retirement Income Security Act applies, including without limitation, the Palco Retirement Plan, Employer Identification No./Plan No. 13-3318327/003.

Person means any person, including without limitation, any individual, entity, corporation, partnership, limited liability company, limited liability partnership, joint venture, association, joint stock company, estate, trust, unincorporated association or organization, official committee, *ad hoc* committee or group, governmental agency or political subdivision thereof, the U.S. Trustee, and any successors or assigns of any of the foregoing.

Petition Date means January 18, 2007, the date on which the Debtors' Reorganization Cases were commenced with the filing of voluntary petitions for relief under chapter 11 of the Bankruptcy Code.

Plan means the First Amended Joint Plan of Reorganization for the Debtors, as Further Modified, with Technical Modifications, proposed by the Plan Proponents, dated July 8, 2008 under Chapter 11 of the United States Bankruptcy Code, including all exhibits attached thereto or referenced therein, as the same may be amended, modified, or supplemented from time to time.

Plan Documents means, collectively, the Plan, the Disclosure Statement, and all documents, attachments, and exhibits attached to the Plan or the Disclosure Statement that aid in effectuating the Plan, as the same may be amended, modified, or supplemented, in accordance with their terms.

Plan Proponents means, collectively, the MRC/Marathon Plan Proponents and the Committee.

Plan Supplement means the supplement to the Plan in form and substance satisfactory to the Plan Proponents and the Reorganized Entities to be filed with the Bankruptcy Court not later than ten (10) days prior to the Voting Deadline, which shall contain forms of final documents described in the Plan.

PLC Funding Amount means that certain \$500,000 to be loaned or caused to be loaned by Newco to the PLC Litigation Trust on the Effective Date which amount shall be used by the PLC Litigation Trust pending the receipt by the PLC Litigation Trust of recoveries on account of the PLC Litigation Trust Assets solely for the purposes (i) of investigating and prosecuting the PLC Litigation Trust Assets, (ii) paying Statutory Fees as set forth in Section 13.5 of the Plan, and (iii) paying the costs and expenses of the PLC Litigation Trust. Interest shall accrue on the outstanding principal balance of the PLC Funding Amount at the rate of seven and one-half percent per annum

(7.5%) until the PLC Funding Amount (together with all accrued interest) has been repaid in full in accordance with the Plan. The term of such loan shall be until the termination of the PLC Litigation Trust in accordance with the Plan.

PLC Litigation Trust means a trust formed in accordance with the PLC Litigation Trust Agreement effective as of the Effective Date (i) into which the PLC Litigation Trust Assets not retained, released, waived or enjoined under Article VIII of the Plan shall automatically vest upon the transfer of Causes of Action by the Reorganized Entities on the Effective Date and into which the Estates and Debtors shall be deemed to have automatically granted, on behalf and for the benefit of their creditors, all of their rights to pursue all such PLC Litigation Trust Assets and receive all recoveries therefrom, and (ii) to administer the proceeds of any such Causes of Action and to act as the disbursing agent for the proceeds of such PLC Litigation Trust Assets.

PLC Litigation Trust Agreement means the trust agreement for the PLC Litigation Trust in the form to be contained in the Plan Supplement.

PLC Litigation Trust Assets means (a) that certain \$10.6 million to be provided by Newco to the PLC Litigation Trust on the Effective Date which amount shall be used by the PLC Litigation Trustee first for payment to Holders of Allowed Claims classified in Classes 7 and 8, second to repay the PLC Funding Amount and SPC Funding Amount, and, finally, any remaining amounts returned to the Reorganized Entities, and (b) Causes of Action of the Palco Debtors for money damages only, transferred, assigned and otherwise conveyed to the PLC Litigation Trust on the Effective Date; *provided, however*, for avoidance of doubt, PLC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, PLC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of the Palco Debtors that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the PLC Litigation Trustee within ten (10) Business Days after the PLC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) the Debtors' claims in the Headwaters Litigation and the proceeds thereof; (vi) Causes of Action with respect to Environmental Obligations; (vii) Causes of Action of Scopac; (viii) the SPC Litigation Trust Assets; (ix) the PLC Funding Amount; and (x) the SPC Funding Amount.

PLC Litigation Trust Participation means an uncertificated, nontransferable, Pro Rata beneficial interest in the net recoveries of the PLC Litigation Trust after prosecution, settlement or abandonment of the PLC Litigation Trust Assets, subject to the terms and conditions of the PLC Litigation Trust Agreement. PLC Litigation Trust Participations (a) shall be noted in the books and records of the PLC Litigation Trust, (b) shall not be evidenced by a writing, and (c) may not be transferred, sold, assigned, hypothecated or pledged, except that they may be assigned or transferred by will, intestate succession, or operation of law.

PLC Litigation Trustee means the trustee(s) of the PLC Litigation Trust, as designated in the Plan and the PLC Litigation Trust Agreement. In the prosecution of any PLC Litigation Trust Assets, the PLC Litigation Trustee shall obtain the benefit of any tolling provisions or extensions available to the Palco Debtors' Estates and/or the Palco Debtors prior to the Confirmation Date or Effective Date, including those set forth in sections 108(a), 546(a), 549(d) and 550(f) of the Bankruptcy Code.

Post-petition Interest means simple interest accruing from the Petition Date calculated at the effective interest rate for 90-day securities obligations issued by the United States Treasury on the Effective Date or, if no such securities were issued on the Effective Date, on the date of issuance immediately preceding the Effective Date.

Priority Tax Claim means a Claim of a Governmental Unit of the kind specified in sections 502(1) and 507(a)(8) of the Bankruptcy Code.

Pro Rata means, with reference to any Distribution on account of any Allowed Claim or Allowed Interest in a Class, a Distribution equal in amount to the ratio (expressed as a percentage) that the amount of such claims bears to the aggregate amount of all Allowed Claims in the same Class.

Professional Compensation Claim means a Claim for compensation, indemnification or reimbursement of expenses incurred by Professionals retained by the Debtors and the Committee pursuant to sections 327, 328, 330, 331, or 503(b) of the Bankruptcy Code in connection with the Reorganization Cases.

Professionals means those Persons (a) employed pursuant to an order of the Bankruptcy Court in accordance with sections 327, 328, or 1103 of the Bankruptcy Code and to be compensated for services pursuant to sections 327, 328, 329, 330, or 331 of the Bankruptcy Code, for which compensation and reimbursement has been allowed by the Bankruptcy Court pursuant to section 503(b)(1) of the Bankruptcy Code, and/or (b) for which compensation and reimbursement has been allowed by the Bankruptcy Court or is sought pursuant to section 503(b)(4) of the Bankruptcy Code.

Proof of Claim means any proof of claim filed with the Bankruptcy Court or the Balloting and Claims Agent with respect to a Debtor pursuant to section 501 of the Bankruptcy Code and Bankruptcy Rules 3001 or 3002.

Quarterly Payment Date means the last Business Day of the month following the end of each calendar quarter after the Effective Date; provided, however, that if the Effective Date is within forty-five (45) days of the end of a calendar quarter, the first Quarterly Distribution Date will be the last Business Day of the month following the end of the first calendar quarter after the calendar quarter in which the Effective Date falls.

Qui Tam Relators means Richard Wilson and Chris Maranto.

Qui Tam Actions means the action filed by the Qui Tam Relators filed on behalf of the United States against the Debtors and related non-debtor parties in the United States District Court for the Northern District of California, case number C-06-7497 and the action filed on behalf of the State of California against the Debtors and related non-debtor parties in San Francisco Superior Court, case number CGC-06-4585.

Qui Tam Claims means the nine Proofs of Claim filed by the Qui Tam Relators in the Debtors' Reorganization Cases, which have been numbered as claims 511 through 519, consecutively, and with respect to which, on February 28, 2008, the Bankruptcy Court approved a settlement, pursuant to which such claims were reduced to \$1.00 each, but any rights of the Qui Tam Relators to pursue non-debtor defendants were preserved.

Real Property Assumed Contract means, collectively, an Assumed Contract (i) relating to a Debtor's interest in real property, and (ii) granting rights or interest related to or appurtenant to the applicable real property, including all easements, license, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, usufructs, reciprocal easement or operating agreements, vault, tunnel or bridge agreements or franchises, development rights, and any other interests in real estate or right *in rem* related to the applicable real property.

Record Date means the date of entry of the order approving the Disclosure Statement.

Released Parties means (i) the Plan Proponents and their respective officers, directors, professionals, members, agents and employees, and (ii) the Reorganized Entities and their respective officers, directors, professionals, members, agents and employees.

Reorganization Case means any of the cases under chapter 11 of the Bankruptcy Code commenced by the Debtors currently pending in the Bankruptcy Court as Jointly Administered Chapter 11 Case Nos. 07-20027 through 07-20032.

Reorganized Entity or Reorganized Entities mean, collectively, Newco and/or Townco, in each case as applicable.

Restructuring Transactions means, collectively, those sales, mergers, consolidations, restructurings, dispositions, liquidations, transfers of assets or dissolutions that the Plan Proponents and the Reorganized Entities determine to be necessary and appropriate to effect a corporate restructuring in accordance with the Plan.

Salmon Creek means Salmon Creek LLC, a wholly owned subsidiary of Palco, and, as applicable, its predecessor Salmon Creek Corporation.

Salmon Creek Timberlands means approximately 1,300 acres of timberlands owned by Salmon Creek, in respect of which Scopac has the timber harvest rights.

SAR Account means funds held in a reserve account titled the Scheduled Amortization Reserve Account and used to support principal payments on the Scopac Timber Notes.

Schedules means the schedules, statements, and lists filed by the Debtors with the Bankruptcy Court pursuant to Bankruptcy Rule 1007, as may be amended or supplemented from time to time.

Scopac means Scotia Pacific Company LLC, a limited liability company wholly owned by Palco.

Scopac General Unsecured Claim means a General Unsecured Claim against Scopac, including, but not limited to, any Claim by Holders of Scopac Timber Notes on account of the Scopac Timber Notes that is not a Secured Claim, which Claims are classified in Class 9 and treated under Article IV of the Plan; provided, however, that the term "Scopac General Unsecured Claim" shall not include Scopac Trade Claims.

Scopac Loan Agreement means that certain agreement dated as of July 20, 1998 by and between Scopac, as borrower, and Bank of America, N.A., as lender and as agent for itself and any other lender parties, pursuant to which Scopac could borrow in order to pay up to one year's interest on the Scopac Timber Notes on a senior secured basis.

Scopac Loan Claim means any Claim arising from the Scopac Loan Agreement, which claim is classified in Class 5 and treated under Article IV of the Plan.

Scopac Timber Notes means, collectively, the A-1 Timber Notes, the A-2 Timber Notes and the A-3 Timber Notes.

Scopac Trade Claim means a General Unsecured Claim against Scopac for goods, supplies, equipment, or services utilized by Scopac in the operation of its business, which shall include claims of former employees and which Claim is classified in Class 8 and treated under Article IV of the Plan; provided, however, that the term "Scopac Trade Claim" shall not include (i) Claims asserted by former Insiders, (ii) the Palco DIP Loan Claim, and (iii) the Palco Term Loan Claim.

Scotia means Scotia, California.

Scotia Inn means Scotia Inn Inc., a wholly owned subsidiary of Palco.

Scotia Development means Scotia Development LLC, a wholly owned subsidiary of Palco.

Secured Claim means any Claim that is (a) secured in whole or part, as of the Petition Date, by a Lien against property of a Debtor that is valid, perfected, and enforceable under applicable law and is not subject to avoidance under the Bankruptcy Code or applicable nonbankruptcy law, or (b) subject to setoff under section 553 of the Bankruptcy Code; provided, however, with respect to both (a) and (b) above, a Claim is a Secured Claim only to the extent of the value, net of any senior Lien, of the Estate's interest in the assets or property securing any such Claim or the amount subject to setoff, as the case may be.

Secured Tax Claim means any Secured Claim of a Governmental Unit that absent its secured status would be entitled to priority in right of payment under sections 502(1) and 507(a)(8) of the Bankruptcy Code (including without limitation any related Secured Claim for penalties).

Securities Act means the Securities Act of 1933, 15 U.S.C. §§ 77a-77m, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made applicable to the Reorganization Cases.

Semi-Annual Payment Date means June 15 and December 15; *provided, however*, if such day is not a Business Day then the Semi-Annual Payment Date shall be the first Business Day thereafter.

SPC Funding Amount means those funds to be loaned or caused to be loaned by the Timber Notes Indenture Trustee to the SPC Litigation Trust on the Effective Date which amount shall be used by the SPC Litigation Trust pending the receipt by the SPC Litigation Trust of recoveries on account of the SPC Litigation Trust Assets solely for the purposes (i) of investigating and prosecuting the SPC Litigation Trust Assets and (ii) paying the costs and expenses of the SPC Litigation Trust.

SPC Litigation Trust means a trust formed in accordance with the SPC Litigation Trust Agreement effective as of the Effective Date (i) into which the SPC Litigation Trust Assets not retained, released, waived or enjoined under Article VIII of the Plan shall automatically vest upon the transfer of Causes of Action by the Reorganized Entities on the Effective Date and into which the Scopac Estate and Scopac shall be deemed to have automatically granted, on behalf and for the benefit of their creditors, all of their rights to pursue all such SPC Litigation Trust Assets and receive all recoveries therefrom, and (ii) to administer the proceeds of any such Causes of Action and to act as the disbursing agent for the proceeds of such SPC Litigation Trust Assets.

SPC Litigation Trust Agreement means the trust agreement for the SPC Litigation Trust in the form to be filed with the Court by the SPC Litigation Trustee on or before the Effective Date, or as soon thereafter as practicable.

SPC Litigation Trust Assets means Causes of Action of Scopac for money damages only, subject to any liens retained pursuant to this Plan by the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims; *provided, however*, for avoidance of doubt, SPC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, SPC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the SPC Litigation Trustee within ten (10) Business Days after the SPC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of the Palco Debtors; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) Causes of Action with respect to Environmental Obligations; (vi) Causes of Action of the Palco Debtors, including their claims in the Headwaters Litigation, and the proceeds thereof; (vii) the PLC Litigation Trust Assets; (viii) the PLC Funding Amount; and (ix) the SPC Funding Amount. Notwithstanding anything to the contrary contained in the Plan, the Confirmation Order, or herein, the SPC Litigation Trust Assets shall include all of Scopac's claims in the Headwaters Litigation, which shall vest in the SPC Litigation Trust subject to any liens, claims and encumbrances (including, without limitation, the lien of the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims).

SPC Litigation Trust Participation means an uncertificated, nontransferable, Pro Rata beneficial interest in the net recoveries of the SPC Litigation Trust (as set forth in Section 8.10.2 of the Plan) after prosecution, settlement or abandonment of the SPC Litigation Trust Assets, subject to the terms and conditions of the SPC Litigation trust Agreement. SPC Litigation Trust Participations (a) shall be noted in the books and records of the SPC Litigation Trust, (b) shall not be evidenced by a writing, and (c) may not be transferred, sold, assigned, hypothecated or pledged, except that they may be assigned or transferred by will, intestate succession, or operation of law.

SPC Litigation Trustee shall be the person nominated by the to serve as the SPC Litigation Trustee in accordance with Section 8.6.2 of the Plan.

State Water Board means the California State Water Resources Control Board.

Supplemental Bar Date Order means the order entered by the Bankruptcy Court establishing September 5, 2007 as the Bar Date for unknown creditors.

SYP means the sustained yield plan approved as part of the Headwaters Agreement and later invalidated by a California state court, which covers multiple species and encompasses substantially all of the Palco Timberlands.

Tax Claim means any Claim for any and all federal, state, county and local income, ad valorem, excise, stamp and other taxes of any type or nature whatsoever.

THP means a timber harvesting plan required to be filed with and approved by the CDF prior to the harvesting of timber.

Timber Notes Indenture means the indenture dated July 20, 1998, as amended from time to time, by and between the Debtor and U.S. Bank & Trust, as original trustee, which indenture governs the terms of the Scopac Timber Notes.

Timber Notes Indenture Trustee means The Bank of New York, N.A., or its successors and assigns, as substitute trustee under the Timber Notes Indenture.

Timberlands means any timberlands owned by Palco, Scopac, or Salmon Creek, including, without limitation, approximately 200,000 acres of timberlands owned by Scopac and the Salmon Creek Timberlands.

TMDLs means total maximum daily load limits.

Townco means the Reorganized Entity that will include any and all Assets of the Debtors currently associated with or anticipated to be associated with Scotia, including, without limitation, industrial use facilities, the cogeneration plant, 270 homes, various commercial properties, and the Britt mill in Arcata, California, and all of the land associated with these Assets, on and after the Effective Date, provided that Townco will not own any of the Assets to be owned by Newco.

U.S. Trustee means the United States Trustee for the Southern District of Texas.

Voting Deadline means the deadline set by the Bankruptcy Court for submitting Ballots on the Plan.

WWDRs means watershed-wide waste discharge requirements.

**APPENDIX A TO MRC/MARATHON FIRST AMENDED PLAN,
AS FURTHER MODIFIED, WITH TECHNICAL MODIFICATIONS**

UNIFORM GLOSSARY OF DEFINED TERMS FOR PLAN DOCUMENTS

**APPENDIX A TO MRC/MARATHON FIRST AMENDED PLAN, AS FURTHER MODIFIED, WITH
TECHNICAL MODIFICATIONS**

Uniform Glossary of Defined Terms for Plan Documents

Unless the context otherwise requires, the following terms, when used in initially capitalized form in the Disclosure Statement, related exhibits, and Plan Documents, shall have the following meanings. Such meanings shall be equally applicable to both the singular and plural forms of such terms. Any term used in capitalized form that is not defined herein but that is defined in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning ascribed to such term by the Bankruptcy Code or the Bankruptcy Rules (with the Bankruptcy Code controlling in the event of a conflict or ambiguity). Certain defined terms used in only one Section of the Disclosure Statement are defined in such Section. The rules of construction set forth herein and in section 102 of the Bankruptcy Code shall apply. All references to the "Plan" shall be construed, where applicable, to include references to the Plan and all its exhibits, appendices, schedules, supplements and annexes (and any amendments made in accordance with their terms or applicable law).

A-1 Timber Notes means Scopac's 6.55% Series B Class A-1 Timber Collateralized Notes due 2028, with an original principal amount of \$160.7 million.

A-2 Timber Notes means Scopac's 7.11 % Series B Class A-2 Timber Collateralized Notes due 2028, with an original principal amount of \$243.2 million.

A-3 Timber Notes means Scopac's 7.71 % Series B Class A-3 Timber Collateralized Notes due 2028, with an original principal amount of \$463.3 million.

Administrative Expense means (a) any cost or expense of administration of the Reorganization Cases incurred before the Effective Date and allowable under section 503(b) of the Bankruptcy Code (including without limitation (x) claims arising under sections 503(b)(3), 503(b)(4) and 503(b)(9) of the Bankruptcy Code and (y) claims asserted by members of the Committee for reimbursement of actual, necessary expenses pursuant to section 503(b)(3)(F) of the Bankruptcy Code which Committee members are permitted to assert) and entitled to priority under section 507(a)(2) of the Bankruptcy Code including, without limitation, (i) any actual and necessary post-petition cost or expense of preserving the Estates or operating the businesses of the Debtors, (ii) any payment required to cure a default on an Assumed Contract, (iii) any post-petition cost, indebtedness, or contractual obligation duly and validly incurred or assumed by a Debtor in the ordinary course of its business, and (iv) compensation or reimbursement of expenses of professionals to the extent allowed by the Bankruptcy Court under sections 330(a) or 331 of the Bankruptcy Code and (b) any fee or charge assessed against the Estates under 28 U.S.C. § 1930.

Administrative Expense Claim means any Claim for the payment of an Administrative Expense.

Administrative Expense Claims Bar Date means the thirtieth day after the Effective Date or such other date as may be fixed by order of the Bankruptcy Court.

Affiliate has the meaning set forth in section 101(2) of the Bankruptcy Code.

Allowed means Bankruptcy Court approval of a Claim or Interest.

Allowed Amount of any Claim or Interest means the amount at which that Claim or Interest is Allowed.

Allowed Claim; Allowed Interest means any Claim or Interest in any of the Debtors or their respective Estates, (i) proof of which was filed on or before the Bar Date (defined below), (ii) if no such proof of Claim or Interest has been timely filed, which has been or hereafter is listed by such Debtor in its Schedules as liquidated in amount and not disputed or contingent or (iii) any Interest registered in the stock or membership register, as the case may be, maintained by or on behalf of the Debtor as of the Record Date, in each such case in clauses (i), (ii) and (iii) above, a Claim or Interest as to which no objection to the allowance thereof, or action to equitably subordinate or otherwise seek recovery from the Holder of the Claim or Interest, has been interposed within the applicable period of

limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order, or as to which an objection has been interposed and such Claim has been allowed in whole or in part by a Final Order.

Assets means all property in which a Debtor holds a legal or equitable interest, including all property described in 11 U.S.C. § 541 and all property disclosed in such Debtor's respective Schedules and the Disclosure Statement.

Assumed Contracts means, collectively, an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code that is identified in the Plan Supplement and which either of the Reorganized Entities intends to assume pursuant to the Plan.

Avoidance Actions means any claim or Cause of Action or right under chapter 5 of the Bankruptcy Code, including all fraudulent-conveyance and fraudulent-transfer laws, all non-bankruptcy laws vesting in creditors' rights to avoid, rescind or recover on account of transfers, all preference laws, the Uniform Fraudulent Transfer Act, state laws of similar import and the proceeds thereof.

Ballot means each of the ballot forms for voting to accept or reject the Plan distributed to all Holders of Impaired Claims entitled to vote on the Plan.

Balloting and Claims Agent means Logan & Company, Inc.

Bank of America means Bank of America, N.A., as lender and as agent for itself and any other lender parties to the Scopac Loan Agreement.

Bankruptcy Code means title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.*, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made, to the extent applicable to the Reorganization Cases.

Bankruptcy Court means the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division, or such other court having jurisdiction over the Reorganization Cases.

Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure and the local rules and general orders of the Bankruptcy Court, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made applicable to the Reorganization Cases.

BAPCPA means the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub.L. 109-8, 119 Stat. 51 (2005).

Bar Date means the date(s) by which any Entity asserting certain Claims against the Debtors must have filed a Proof of Claim or be forever barred from asserting such Claims against the Debtors or their Estates, as established by any order(s) of the Bankruptcy Court or the Plan.

Bar Date Order means the order entered by the Bankruptcy Court establishing July 17, 2007 as the general Bar Date and August 17, 2007 as the Bar Date applicable to Governmental Units, and any subsequent order by the Bankruptcy Court amending, revising, rescinding or superseding the same, including but not limited to the Supplemental Bar Date Order.

Britt means Britt Lumber Co., Inc., a wholly owned subsidiary of Palco.

Business Day means any day other than a Saturday, Sunday, or legal holiday (as such term is defined in Bankruptcy Rule 9006(a)).

California Permits means the Permits issued by California pursuant to the HCP.

Cash means United States Dollars in the form of checks drawn on available funds or wire transfers of immediately available funds.

Causes of Action means all causes of action, rights, Claims, and demands against any Persons that the Debtors or their Estates own or have an interest in or can assert in any fashion, or which could be asserted by the Debtors on behalf of any Creditor or Creditor representative under the Bankruptcy Code as Debtors in Possession, including but not limited to actions under 11 U.S.C. § 510 to subordinate Claims.

CDF means the California Department of Forestry and Fire Protection.

CDF Harvest Limit means the applicable annual harvest limit established by the CDF for each watershed.

Claim has the meaning set forth in section 101(5) of the Bankruptcy Code, against any Debtor or any Estate whether or not asserted.

Claimant means the Holder of a Claim.

Class means a category of Holders of Claims or Interests, as set forth in Articles III of the Plan pursuant to section 1122 of the Bankruptcy Code.

Class 6 Distribution Adjustment means, subject to the limitation contained Section 4.6.2.1 of the Plan, a reduction dollar for dollar by the amount determined by the following equation: (a) the sum of (i) the Allowed Scopac Loan Claim and (ii) any postpetition financing provided to Scopac and (iii) any Other Secured Claim required to be paid under the Plan by Scopac, in excess of the fair market value as of the Effective Date of any cash, auction rate securities or other assets in the SAR Account as of the Effective Date; plus (b) the sum of accrued but unpaid Scopac Administrative Expense Claims in excess of \$5,000,000, as such claims may be estimated as of the Effective Date; minus (c) any accrued but unpaid receivables arising after the Petition Date owed from Palco to Scopac net of any accrued but unpaid receivables arising after the Petition Date owed from Scopac to Palco as of the Effective Date.

Collateral means any property or interest in property of an Estate that is subject to a Lien to secure the payment or performance of a Claim, which Lien is not subject to avoidance or otherwise invalid under the Bankruptcy Code or applicable state law.

Committee means the Official Committee of Unsecured Creditors for the Debtors appointed by the U.S. Trustee on January 25, 2007, as presently constituted.

Confirmation, Confirmation of the Plan, or Plan Confirmation means the approval of the Plan by the Bankruptcy Court at the Confirmation Hearing.

Confirmation Date means the date on which the Confirmation Order is entered on the docket of the Bankruptcy Court.

Confirmation Hearing means the hearing held by the Bankruptcy Court pursuant to section 1128 of the Bankruptcy Code to consider Confirmation of the Plan, as such hearing may be adjourned or continued from time to time.

Confirmation Order means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 and other applicable sections of the Bankruptcy Code.

Creditor means any Person or Entity holding a Claim against a Debtor's Estate or pursuant to section 102(5) of the Bankruptcy Code against property of the Debtor that arose or is deemed to have arisen on or prior to the Petition Date.

Debtor means any of the Palco Debtors or Scopac.

Debtors means the Palco Debtors and Scopac.

Deficiency Claim means a Claim of a Claimant that asserts a Secured Claim against one or more of the Debtors equal to the amount by which such Claim exceeds the Allowed Secured Claim.

DIP Order means the Bankruptcy Court's order dated July 31, 2007 authorizing the Palco Debtors to enter into the Palco DIP Facility.

Disclosure Statement means the Joint Disclosure Statement in Support of the Respective Plans of Reorganization Proposed by (1) Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.; (2) The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes; and (3) the Debtors and Maxxam Inc., Maxxam Group Holdings Inc., and Maxxam Group Inc., dated February 29, 2008, including all exhibits attached thereto or referenced therein, as submitted pursuant to section 1125 of the Bankruptcy Code and approved by the Bankruptcy Court, as such Joint Disclosure Statement may be further amended, supplemented, or modified from time to time.

Disputed Claim means a Claim that is not an Allowed Claim, including a Claim that is, in whole or in part: (a) listed on the Schedules as, or proof of which is filed as, unliquidated, disputed or contingent; (b) as to which a Proof of Claim designating such Claim as liquidated in amount and not contingent was not timely and properly filed; (c) as to which a Debtor, Reorganized Entity, or other party in interest has filed a timely objection or request for estimation in accordance with the Bankruptcy Code and Bankruptcy Rules; or (d) is otherwise disputed by a Debtor, a Reorganized Entity or other party in interest in accordance with applicable law, which objection, request for estimation or dispute has not been withdrawn or determined by a Final Order.

Distribution means any distribution by or on behalf of the Debtors, the Reorganized Entities, the PLC Litigation Trust and the SPC Litigation Trust to the Holders of Allowed Claims pursuant to the Plan.

Distribution Date, when used with respect to each Claim and Interest, means as soon as practicable after the later of (a) the Effective Date, (b) the date a Claim becomes payable pursuant to any agreement between the Debtors (or, upon the occurrence of the Effective Date, the Reorganized Entities, as the case may be), or (c) solely with respect to Disputed Claims and Disputed Interests as of the Effective Date, no later than 30 days after the date upon which the Claim or Interest becomes an Allowed Claim or Allowed Interest.

Effective Date means the date specified by the Plan Proponents in a notice filed with the Bankruptcy Court as the date on which this Plan shall take effect, and which occurs after (i) the Confirmation Order becomes a Final Order; and (ii) each of the conditions precedent to the Effective Date provided for in Article XI of the Plan have been satisfied or waived.

Entity has the meaning set forth in section 101(15) of the Bankruptcy Code.

Environmental Obligations means, with respect to any Debtor or Reorganized Entity such entity or entities' obligations to Governmental Units to comply, complete, perform, satisfy and/or provide for satisfaction of pre-petition, current, ongoing, executory and/or future regulatory or statutory obligations, including, without limitation, (i) approved THPs, WWDRs, Cleanup and Abatement Orders, Streambed Alteration Agreements, and related permits or authorizations, and may include for example, requirements for completion or correction, monitoring and reporting, winterization, drainage improvement, restoration, inspection, study; (ii) the California State and federal ITPs, which include the HCP, and the associated Implementation Agreement (the "IA"), and the Agreement Relating to Enforcement of AB 1986; (iii) consistency determinations under the California Endangered Species Act that are based upon the federal ITPs, including the HCP and the IA; and (iv) those obligations described in the Claims filed by the California Resources Agency, the California Department of Forestry and Fire Protection, the California Department of Fish and Game, the California Wildlife Conservation Board, the California State Water Resources Board, the California Regional Water Quality Control Board, North Coast Region, the U.S. Fish and Wildlife Services, the U.S. Department of the Interior, the National Marine Fisheries Service, and the U.S. Department of Commerce.

Environmental Plans means the HCP.

EPA means the Federal Environmental Protection Agency.

Equity Interests or **Interests** means the rights of the Holders of the equity securities of a Debtor.

Estate means the legal entity administering the property of a Debtor, in its capacity as a debtor in possession, between the Petition Date and the Effective Date, created pursuant to section 541 of the Bankruptcy Code.

Exculpated Parties means (i) the Plan Proponents and their respective officers, directors, professionals, members, agents and employees, (ii) the Reorganized Entities and their respective officers, directors, professionals, members, agents and employees, and (iii) the Committee, its members and Professionals.

Exit Financing means the proposed financing discussed in Section 7.8 of the Plan.

Final Order means an order of a court: (a) as to which the time to appeal, petition for writ of certiorari, or otherwise seek appellate review or to move for reargument, rehearing, reconsideration or stay has expired and as to which no appeal, petition for writ of certiorari, or other appellate review, or proceedings for reargument, rehearing, reconsideration or stay shall then be pending; or (b) as to which any right to appeal, petition for certiorari, or move for reargument, rehearing or stay shall have been waived in writing by all parties with such right; or (c) in the event that an appeal, writ of certiorari, or other appellate review or reargument, rehearing, reconsideration or stay thereof has been sought, which order shall have been affirmed by the highest court to which such order was appealed or from which writ of certiorari or other appellate review or reargument, rehearing, reconsideration or stay was sought, and as to which the time to take any further appeal, to petition for writ of certiorari, to otherwise seek appellate review, and to move for reargument, rehearing, reconsideration or stay shall have expired; *provided, however*, that the possibility that a motion under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure or under section 1144 of the Bankruptcy Code, or any analogous rule under the Bankruptcy Rules, may be filed with respect to such order shall not cause such order not to be a Final Order.

General Unsecured Claim means a Claim against a Debtor that is not a Secured Claim, an Administrative Expense Claim, a Trade Claim, a Priority Tax Claim, an Other Priority Claim, a Non-Debtor Affiliate Claim or a Professional Compensation Claim (but shall not include Claims that are disallowed or released, whether by operation of law or pursuant to order of the Bankruptcy Court, written release or settlement, the provisions of the Plan or otherwise), which Claims are classified in Classes 7, 8 and 9 and treated under Article IV of the Plan; *provided, however*, that the term "General Unsecured Claim" shall not include (i) the Palco DIP Loan Claim, and (ii) the Palco Term Loan Claim.

Governmental Unit has the meaning ascribed to such term in section 101(27) of the Bankruptcy Code.

HCP means the Habitat Conservation Plan for the Properties of Pacific Lumber, Scotia Pacific, and Salmon Creek Corporation, dated February, 1999 approved in March 1999 in connection with consummation of the Headwaters Agreement, which covers multiple species and encompasses substantially all of the Timberlands.

Headwaters Agreement means the agreement among Palco, Scopac, Salmon Creek, the United States, and California pursuant to which the those companies transferred to the United States government 5,600 acres of timberlands in exchange for \$300 million, approximately 7,700 acres of timberlands, and federal and state government-approved habitat conservation and sustained yield plans.

Headwaters Litigation means the claim filed by Palco and Scopac with the Claims Board against the North Coast Water Board, the State Water Board and the State of California (Claim No. G558159) alleging that the defendants have substantially impaired the contractual and legal rights of Palco and Scopac under the Headwaters Agreement, and the subsequent damages lawsuit entitled *The Pacific Lumber Company and Scotia Pacific Lumber Company LLC v. State of California, et al.* filed by Palco and Scopac in the Superior Court of Fresno County, California (No. CECG 0422).

Headwaters Timberlands means the 5,600 acres of timberlands transferred by Salmon Creek, Palco and Scopac to the United States government upon consummation of the Headwaters Agreement.

Holder means any Person holding an Interest or Claim.

Impaired means a Claim or a Class of Claims that is impaired within the meaning of section 1124 of the Bankruptcy Code.

Inter-Debtor Claim means any Claim held by any Debtor against any other Debtor, which claim is classified in Class 10 and treated under Article IV of the Plan.

Intercompany Contracts means any contract or agreement by or between any of the Debtors including, but not limited to, the following: (i) the New Reciprocal Rights Agreement; (ii) the New Master Purchase Agreement; (iii) the New Services Agreement; (iv) the New Additional Services Agreement; (v) the Master Lease Agreement; (vi) the Amended and Restated Lease; (vii) the Sales and Marketing Assistance Agreement; and (viii) the Development and Sales Assistance Agreement, as any of such agreements or contracts have been amended through the date of the Disclosure Statement.

Interim Compensation Order means the order entered by the Bankruptcy Court on January 24, 2007 establishing procedures for interim compensation and reimbursement of expenses of professionals of the Debtors and the Committee.

IRS means the Internal Revenue Service.

ITP means Incidental Take Permit, which authorizes certain actions that might otherwise constitute a prohibited "take" of an endangered or threatened species which is otherwise protected by the state and federal Endangered Species Acts.

LIBOR means London Interbank offered rate of interest.

Lien has the meaning set forth in section 101(37) of the Bankruptcy Code.

Liquidation Analysis means the liquidation analysis attached as Exhibit E to the Disclosure Statement.

Marathon means, collectively, Marathon Structured Finance Fund L.P. and certain of its affiliates that are lenders to the Palco Debtors

MAXXAM means MAXXAM Inc., MGHI's parent.

MGHI means MAXXAM Group Holdings Inc., MGI's parent.

MGI means, MAXXAM Group Inc., Palco's parent.

Mill or Scotia Mill means the lumber mill of Palco located in Scotia and operated by Palco, together with all Assets of the Debtors currently associated with or anticipated to be associated with Mill on and after the Effective Date.

Mill Working Capital means the marked-to-market value of the ordinary course current receivables and current inventories, less the amount of the current payables of Newco.

MMCAs means the marbled murrelet conservation areas and are also known as the Ancient Redwood Groves.

MRC means, collectively, Mendocino Redwood Company, LLC and certain of its affiliates.

MRC/Marathon Plan Proponents means, collectively, MRC and Marathon.

Newco means the Reorganized Entity that will include the assets of the Mill and the Timberlands, together with any and all Assets of the Debtors currently associated with or anticipated to be associated with Mill and the Timberlands on and after the Effective Date, provided that Newco will not own any of the Assets to be owned by Townco.

New Master Purchase Agreement means that certain agreement dated July 20, 1998 by and between Scopac and Palco governing the sale of Scopac Timber.

Non-Debtor Affiliate means any Entity that is an affiliate of any of the Debtors (other than another Debtor), within the meaning of section 101(2) of the Bankruptcy Code, including but not limited to MGI, MAXXAM Group Holdings Inc., and MAXXAM.

Non-Debtor Affiliate Claim means a Claim by a Non-Debtor Affiliate against a Debtor, including but not limited to the following Claims, which are collectively classified in Class 11: (i) Claims arising from those certain funds loaned by MGI to Palco during 2005 on an unsecured and subordinated basis totaling approximately \$6,000,000; (ii) Claims arising from those certain funds loaned by MGI to Palco during 2006 on an unsecured and subordinated basis totaling approximately \$30,900,000; (iii) Claims arising from the Lump Sum Purchases; and (iv) Claims arising from MAXXAM's provision of general and administrative assistance and other services to the Debtors, including risk-management services, accounting services, income tax reporting and compliance services, treasury and cash-management services, legal services and employee-benefit services general and administrative assistance and other services which, as of the Petition Date, totaled approximately \$1,782,542, and subsequent to the Petition Date totaled in excess of \$1,200,000.

North Coast Water Board means the California North Coast Regional Water Quality Control Board.

Option A means the plan for complying with California's sustained yield requirements, which has been approved by the California Department of Forestry and Fire Protection and is currently being relied on by Scopac to obtain approval of its THPs.

Option C means an alternative procedure for timber owners to comply with California's sustained yield requirements.

Ordinary Course Professionals Order means the order entered by the Bankruptcy Court on or about July 17, 2007 permitting the Debtors to employ professionals in the ordinary course of their business without the necessity of filing individual retention applications for each professional.

Other Priority Claim means a Claim (or portion thereof), if any, entitled to priority under section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim, an Administrative Expense Claim or a Professional Compensation Claim, which claim is classified in Class 1 and treated under Article IV of the Plan.

Other Secured Claim means any Secured Claim other than the following: (i) the Palco DIP Loan Claim; (ii) the Palco Term Loan Claim; (iii) the Scopac Loan Claim; and (iv) the Scopac Timber Note Secured Claims, which Claim, together with Secured Tax Claims are classified in Class 2 and treated under Article IV of the Plan.

Palco means The Pacific Lumber Company, a wholly owned subsidiary of MGI.

Palco DIP Loan means the senior secured debtor-in-possession financing provided to the Palco Debtors by Marathon pursuant to the Debtor-In-Possession Revolving Credit Agreement, dated as of August 6, 2007.

Palco DIP Loan Claim means a Claim arising under the Palco DIP Loan, which claim is classified in Class 3 and treated under Article IV of the Plan and which shall not include any Claim for any deficiency, which is waived by the Holder of such Claim in consideration for the releases and other good and valuable consideration given and embodied under the Plan.

Palco Debtors means, collectively, Palco, Britt, Salmon Creek, Scotia Inn, and Scotia Development.

Palco General Unsecured Claim means a General Unsecured Claim against Palco, which Claim is classified in Class 7 and treated under Article IV of the Plan together with Palco Trade Claims.

Palco Revolving Credit Agreement means that certain Revolving Credit Agreement, dated as of July 18, 2006 by and among Palco and Britt, as borrowers, and Marathon, as Administrative Agent and as a lender.

Palco Revolving Credit Facility means the five year \$60.0 million senior secured asset based revolving credit facility evidenced by the Palco Revolving Credit Agreement.

Palco Term Loan means the five year \$85.0 million senior secured term loan provided pursuant to the Palco Term Loan Agreement.

Palco Term Loan Agreement means that certain Term Loan Agreement, dated as of July 18, 2006, by and among Palco and Britt, as borrowers, and Marathon, as Administrative Agent and as a lender.

Palco Term Loan Claim means a Claim arising under the Palco Term Loan Agreement, which claim is classified in Class 4 and treated under Article IV of the Plan and which shall not include any Claim for any deficiency, which is waived by the Holder of such Claim in consideration for the releases and other good and valuable consideration given and embodied under the Plan.

Palco Trade Claim means a General Unsecured Claim against the Palco Debtors for goods, supplies, equipment, or services utilized by the Palco Debtors in the operation of their businesses, which Claim is classified in Class 7 and treated under Article IV of the Plan together with Palco General Unsecured Claims.

Pension Plan means any ongoing, defined benefit pension plans to which a Debtor is a contributing sponsor or member of a contributing sponsor's controlled group and to which Title IV of the Employee Retirement Income Security Act applies, including without limitation, the Palco Retirement Plan, Employer Identification No./Plan No. 13-3318327/003.

Person means any person, including without limitation, any individual, entity, corporation, partnership, limited liability company, limited liability partnership, joint venture, association, joint stock company, estate, trust, unincorporated association or organization, official committee, *ad hoc* committee or group, governmental agency or political subdivision thereof, the U.S. Trustee, and any successors or assigns of any of the foregoing.

Petition Date means January 18, 2007, the date on which the Debtors' Reorganization Cases were commenced with the filing of voluntary petitions for relief under chapter 11 of the Bankruptcy Code.

Plan means the First Amended Joint Plan of Reorganization for the Debtors, as Further Modified, with Technical Modifications, proposed by the Plan Proponents, dated July 8, 2008 under Chapter 11 of the United States Bankruptcy Code, including all exhibits attached thereto or referenced therein, as the same may be amended, modified, or supplemented from time to time.

Plan Documents means, collectively, the Plan, the Disclosure Statement, and all documents, attachments, and exhibits attached to the Plan or the Disclosure Statement that aid in effectuating the Plan, as the same may be amended, modified, or supplemented, in accordance with their terms.

Plan Proponents means, collectively, the MRC/Marathon Plan Proponents and the Committee.

Plan Supplement means the supplement to the Plan in form and substance satisfactory to the Plan Proponents and the Reorganized Entities to be filed with the Bankruptcy Court not later than ten (10) days prior to the Voting Deadline, which shall contain forms of final documents described in the Plan.

PLC Funding Amount means that certain \$500,000 to be loaned or caused to be loaned by Newco to the PLC Litigation Trust on the Effective Date which amount shall be used by the PLC Litigation Trustee pending the receipt by the PLC Litigation Trust of recoveries on account of the PLC Litigation Trust Assets solely for the purposes (i) of investigating and prosecuting the PLC Litigation Trust Assets, (ii) paying Statutory Fees as set forth in Section 13.5 of the Plan, and (iii) paying the costs and expenses of the PLC Litigation Trust. Interest shall accrue on the outstanding principal balance of the PLC Funding Amount at the rate of seven and one-half percent per annum

(7.5%) until the PLC Funding Amount (together with all accrued interest) has been repaid in full in accordance with the Plan. The term of such loan shall be until the termination of the PLC Litigation Trust in accordance with the Plan.

PLC Litigation Trust means a trust formed in accordance with the PLC Litigation Trust Agreement effective as of the Effective Date (i) into which the PLC Litigation Trust Assets not retained, released, waived or enjoined under Article VIII of the Plan shall automatically vest upon the transfer of Causes of Action by the Reorganized Entities on the Effective Date and into which the Estates and Debtors shall be deemed to have automatically granted, on behalf and for the benefit of their creditors, all of their rights to pursue all such PLC Litigation Trust Assets and receive all recoveries therefrom, and (ii) to administer the proceeds of any such Causes of Action and to act as the disbursing agent for the proceeds of such PLC Litigation Trust Assets.

PLC Litigation Trust Agreement means the trust agreement for the PLC Litigation Trust in the form to be contained in the Plan Supplement.

PLC Litigation Trust Assets means (a) that certain \$10.6 million to be provided by Newco to the PLC Litigation Trust on the Effective Date which amount shall be used by the PLC Litigation Trustee first for payment to Holders of Allowed Claims classified in Classes 7 and 8, second to repay the PLC Funding Amount and SPC Funding Amount, and, finally, any remaining amounts returned to the Reorganized Entities, and (b) Causes of Action of the Palco Debtors for money damages only, transferred, assigned and otherwise conveyed to the PLC Litigation Trust on the Effective Date; *provided, however*, for avoidance of doubt, PLC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, PLC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of the Palco Debtors that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the PLC Litigation Trustee within ten (10) Business Days after the PLC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) the Debtors' claims in the Headwaters Litigation and the proceeds thereof; (vi) Causes of Action with respect to Environmental Obligations; (vii) Causes of Action of Scopac; (viii) the SPC Litigation Trust Assets; (ix) the PLC Funding Amount; and (x) the SPC Funding Amount.

PLC Litigation Trust Participation means an uncertificated, nontransferable, Pro Rata beneficial interest in the net recoveries of the PLC Litigation Trust after prosecution, settlement or abandonment of the PLC Litigation Trust Assets, subject to the terms and conditions of the PLC Litigation Trust Agreement. PLC Litigation Trust Participations (a) shall be noted in the books and records of the PLC Litigation Trust, (b) shall not be evidenced by a writing, and (c) may not be transferred, sold, assigned, hypothecated or pledged, except that they may be assigned or transferred by will, intestate succession, or operation of law.

PLC Litigation Trustee means the trustee(s) of the PLC Litigation Trust, as designated in the Plan and the PLC Litigation Trust Agreement. In the prosecution of any PLC Litigation Trust Assets, the PLC Litigation Trustee shall obtain the benefit of any tolling provisions or extensions available to the Palco Debtors' Estates and/or the Palco Debtors prior to the Confirmation Date or Effective Date, including those set forth in sections 108(a), 546(a), 549(d) and 550(f) of the Bankruptcy Code.

Post-petition Interest means simple interest accruing from the Petition Date calculated at the effective interest rate for 90-day securities obligations issued by the United States Treasury on the Effective Date or, if no such securities were issued on the Effective Date, on the date of issuance immediately preceding the Effective Date.

Priority Tax Claim means a Claim of a Governmental Unit of the kind specified in sections 502(1) and 507(a)(8) of the Bankruptcy Code.

Pro Rata means, with reference to any Distribution on account of any Allowed Claim or Allowed Interest in a Class, a Distribution equal in amount to the ratio (expressed as a percentage) that the amount of such claims bears to the aggregate amount of all Allowed Claims in the same Class.

Professional Compensation Claim means a Claim for compensation, indemnification or reimbursement of expenses incurred by Professionals retained by the Debtors and the Committee pursuant to sections 327, 328, 330, 331, or 503(b) of the Bankruptcy Code in connection with the Reorganization Cases.

Professionals means those Persons (a) employed pursuant to an order of the Bankruptcy Court in accordance with sections 327, 328, or 1103 of the Bankruptcy Code and to be compensated for services pursuant to sections 327, 328, 329, 330, or 331 of the Bankruptcy Code, for which compensation and reimbursement has been allowed by the Bankruptcy Court pursuant to section 503(b)(1) of the Bankruptcy Code, and/or (b) for which compensation and reimbursement has been allowed by the Bankruptcy Court or is sought pursuant to section 503(b)(4) of the Bankruptcy Code.

Proof of Claim means any proof of claim filed with the Bankruptcy Court or the Balloting and Claims Agent with respect to a Debtor pursuant to section 501 of the Bankruptcy Code and Bankruptcy Rules 3001 or 3002.

Quarterly Payment Date means the last Business Day of the month following the end of each calendar quarter after the Effective Date; provided, however, that if the Effective Date is within forty-five (45) days of the end of a calendar quarter, the first Quarterly Distribution Date will be the last Business Day of the month following the end of the first calendar quarter after the calendar quarter in which the Effective Date falls.

Qui Tam Relators means Richard Wilson and Chris Maranto.

Qui Tam Actions means the action filed by the Qui Tam Relators filed on behalf of the United States against the Debtors and related non-debtor parties in the United States District Court for the Northern District of California, case number C-06-7497 and the action filed on behalf of the State of California against the Debtors and related non-debtor parties in San Francisco Superior Court, case number CGC-06-4585.

Qui Tam Claims means the nine Proofs of Claim filed by the Qui Tam Relators in the Debtors' Reorganization Cases, which have been numbered as claims 511 through 519, consecutively, and with respect to which, on February 28, 2008, the Bankruptcy Court approved a settlement, pursuant to which such claims were reduced to \$1.00 each, but any rights of the Qui Tam Relators to pursue non-debtor defendants were preserved.

Real Property Assumed Contract means, collectively, an Assumed Contract (i) relating to a Debtor's interest in real property, and (ii) granting rights or interest related to or appurtenant to the applicable real property, including all easements, license, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, usufructs, reciprocal easement or operating agreements, vault, tunnel or bridge agreements or franchises, development rights, and any other interests in real estate or right *in rem* related to the applicable real property.

Record Date means the date of entry of the order approving the Disclosure Statement.

Released Parties means (i) the Plan Proponents and their respective officers, directors, professionals, members, agents and employees, and (ii) the Reorganized Entities and their respective officers, directors, professionals, members, agents and employees.

Reorganization Case means any of the cases under chapter 11 of the Bankruptcy Code commenced by the Debtors currently pending in the Bankruptcy Court as Jointly Administered Chapter 11 Case Nos. 07-20027 through 07-20032.

Reorganized Entity or Reorganized Entities mean, collectively, Newco and/or Townco, in each case as applicable.

Restructuring Transactions means, collectively, those sales, mergers, consolidations, restructurings, dispositions, liquidations, transfers of assets or dissolutions that the Plan Proponents and the Reorganized Entities determine to be necessary and appropriate to effect a corporate restructuring in accordance with the Plan.

Salmon Creek means Salmon Creek LLC, a wholly owned subsidiary of Palco, and, as applicable, its predecessor Salmon Creek Corporation.

Salmon Creek Timberlands means approximately 1,300 acres of timberlands owned by Salmon Creek, in respect of which Scopac has the timber harvest rights.

SAR Account means funds held in a reserve account titled the Scheduled Amortization Reserve Account and used to support principal payments on the Scopac Timber Notes.

Schedules means the schedules, statements, and lists filed by the Debtors with the Bankruptcy Court pursuant to Bankruptcy Rule 1007, as may be amended or supplemented from time to time.

Scopac means Scotia Pacific Company LLC, a limited liability company wholly owned by Palco.

Scopac General Unsecured Claim means a General Unsecured Claim against Scopac, including, but not limited to, any Claim by Holders of Scopac Timber Notes on account of the Scopac Timber Notes that is not a Secured Claim, which Claims are classified in Class 9 and treated under Article IV of the Plan; provided, however, that the term "Scopac General Unsecured Claim" shall not include Scopac Trade Claims.

Scopac Loan Agreement means that certain agreement dated as of July 20, 1998 by and between Scopac, as borrower, and Bank of America, N.A., as lender and as agent for itself and any other lender parties, pursuant to which Scopac could borrow in order to pay up to one year's interest on the Scopac Timber Notes on a senior secured basis.

Scopac Loan Claim means any Claim arising from the Scopac Loan Agreement, which claim is classified in Class 5 and treated under Article IV of the Plan.

Scopac Timber Notes means, collectively, the A-1 Timber Notes, the A-2 Timber Notes and the A-3 Timber Notes.

Scopac Trade Claim means a General Unsecured Claim against Scopac for goods, supplies, equipment, or services utilized by Scopac in the operation of its business, which shall include claims of former employees and which Claim is classified in Class 8 and treated under Article IV of the Plan; provided, however, that the term "Scopac Trade Claim" shall not include (i) Claims asserted by former Insiders, (ii) the Palco DIP Loan Claim, and (iii) the Palco Term Loan Claim.

Scotia means Scotia, California.

Scotia Inn means Scotia Inn Inc., a wholly owned subsidiary of Palco.

Scotia Development means Scotia Development LLC, a wholly owned subsidiary of Palco.

Secured Claim means any Claim that is (a) secured in whole or part, as of the Petition Date, by a Lien against property of a Debtor that is valid, perfected, and enforceable under applicable law and is not subject to avoidance under the Bankruptcy Code or applicable nonbankruptcy law, or (b) subject to setoff under section 553 of the Bankruptcy Code; provided, however, with respect to both (a) and (b) above, a Claim is a Secured Claim only to the extent of the value, net of any senior Lien, of the Estate's interest in the assets or property securing any such Claim or the amount subject to setoff, as the case may be.

Secured Tax Claim means any Secured Claim of a Governmental Unit that absent its secured status would be entitled to priority in right of payment under sections 502(1) and 507(a)(8) of the Bankruptcy Code (including without limitation any related Secured Claim for penalties).

Securities Act means the Securities Act of 1933, 15 U.S.C. §§ 77a-77m, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made applicable to the Reorganization Cases.

Semi-Annual Payment Date means June 15 and December 15; *provided, however*, if such day is not a Business Day then the Semi-Annual Payment Date shall be the first Business Day thereafter.

SPC Funding Amount means those funds to be loaned or caused to be loaned by the Timber Notes Indenture Trustee to the SPC Litigation Trust on the Effective Date which amount shall be used by the SPC Litigation Trustee pending the receipt by the SPC Litigation Trust of recoveries on account of the SPC Litigation Trust Assets solely for the purposes (i) of investigating and prosecuting the SPC Litigation Trust Assets and (ii) paying the costs and expenses of the SPC Litigation Trust.

SPC Litigation Trust means a trust formed in accordance with the SPC Litigation Trust Agreement effective as of the Effective Date (i) into which the SPC Litigation Trust Assets not retained, released, waived or enjoined under Article VIII of the Plan shall automatically vest upon the transfer of Causes of Action by the Reorganized Entities on the Effective Date and into which the Scopac Estate and Scopac shall be deemed to have automatically granted, on behalf and for the benefit of their creditors, all of their rights to pursue all such SPC Litigation Trust Assets and receive all recoveries therefrom, and (ii) to administer the proceeds of any such Causes of Action and to act as the disbursing agent for the proceeds of such SPC Litigation Trust Assets.

SPC Litigation Trust Agreement means the trust agreement for the SPC Litigation Trust in the form to be filed with the Court by the SPC Litigation Trustee on or before the Effective Date, or as soon thereafter as practicable.

SPC Litigation Trust Assets means Causes of Action of Scopac for money damages only, subject to any liens retained pursuant to this Plan by the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims; *provided, however*, for avoidance of doubt, SPC Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, SPC Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of Scopac that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the SPC Litigation Trustee within ten (10) Business Days after the SPC Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors of the Palco Debtors; (iv) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (v) Causes of Action with respect to Environmental Obligations; (vi) Causes of Action of the Palco Debtors, including their claims in the Headwaters Litigation, and the proceeds thereof; (vii) the PLC Litigation Trust Assets; (viii) the PLC Funding Amount; and (ix) the SPC Funding Amount. Notwithstanding anything to the contrary contained in the Plan, the Confirmation Order, or herein, the SPC Litigation Trust Assets shall include all of Scopac's claims in the Headwaters Litigation, which shall vest in the SPC Litigation Trust subject to any liens, claims and encumbrances (including, without limitation, the lien of the Timber Notes Indenture Trustee for the benefit of the Holders of Class 6 Allowed Scopac Timber Note Secured Claims).

SPC Litigation Trust Participation means an uncertificated, nontransferable, Pro Rata beneficial interest in the net recoveries of the SPC Litigation Trust (as set forth in Section 8.10.2 of the Plan) after prosecution, settlement or abandonment of the SPC Litigation Trust Assets, subject to the terms and conditions of the SPC Litigation trust Agreement. SPC Litigation Trust Participations (a) shall be noted in the books and records of the SPC Litigation Trust, (b) shall not be evidenced by a writing, and (c) may not be transferred, sold, assigned, hypothecated or pledged, except that they may be assigned or transferred by will, intestate succession, or operation of law.

SPC Litigation Trustee shall be the person nominated by the to serve as the SPC Litigation Trustee in accordance with Section 8.6.2 of the Plan.

State Water Board means the California State Water Resources Control Board.

Supplemental Bar Date Order means the order entered by the Bankruptcy Court establishing September 5, 2007 as the Bar Date for unknown creditors.

SYP means the sustained yield plan approved as part of the Headwaters Agreement and later invalidated by a California state court, which covers multiple species and encompasses substantially all of the Palco Timberlands.

Tax Claim means any Claim for any and all federal, state, county and local income, ad valorem, excise, stamp and other taxes of any type or nature whatsoever.

THP means a timber harvesting plan required to be filed with and approved by the CDF prior to the harvesting of timber.

Timber Notes Indenture means the indenture dated July 20, 1998, as amended from time to time, by and between the Debtor and U.S. Bank & Trust, as original trustee, which indenture governs the terms of the Scopac Timber Notes.

Timber Notes Indenture Trustee means The Bank of New York, N.A., or its successors and assigns, as substitute trustee under the Timber Notes Indenture.

Timberlands means any timberlands owned by Palco, Scopac, or Salmon Creek, including, without limitation, approximately 200,000 acres of timberlands owned by Scopac and the Salmon Creek Timberlands.

TMDLs means total maximum daily load limits.

Townco means the Reorganized Entity that will include any and all Assets of the Debtors currently associated with or anticipated to be associated with Scotia, including, without limitation, industrial use facilities, the cogeneration plant, 270 homes, various commercial properties, and the Britt mill in Arcata, California, and all of the land associated with these Assets, on and after the Effective Date, provided that Townco will not own any of the Assets to be owned by Newco.

U.S. Trustee means the United States Trustee for the Southern District of Texas.

Voting Deadline means the deadline set by the Bankruptcy Court for submitting Ballots on the Plan.

WWDRs means watershed-wide waste discharge requirements.