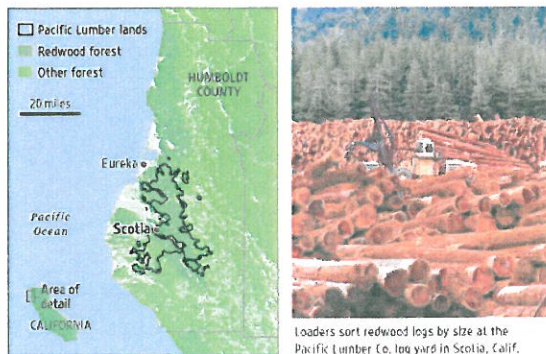


Fate of Pacific Lumber, Redwoods, in Judge's Hands

By CARI TUNA
June 6, 2008; Page B3



Sources: California Department of Forestry and Fire Protection (forest cover); Pacific Lumber Co. (photo)

A Texas bankruptcy judge could rule Friday on the fate of 200,000 acres of California redwoods that helped ignite the "timber wars" of the 1990s and are tied to one of the nation's last company-owned towns.

U.S. Bankruptcy Judge Richard Schmidt in Corpus Christi, Texas, is considering two plans to take [Pacific Lumber Co.](#) and its subsidiary Scotia Pacific out of Chapter 11 protection. The companies entered bankruptcy proceedings in January 2007 as government restrictions on logging cut production.

Pacific Lumber has been a fixture of Northern California's timber industry since the 19th century and was until recently the world's largest producer of redwood timber products. It owns and operates the tiny town of Scotia, Calif., and sparked a controversy over sustainable foresting practices in California after [Maxxam Inc.](#) acquired the company in 1986.

One plan under consideration by the bankruptcy court is backed by Mendocino Redwood Co., which is owned largely by the Fisher family that founded Gap Inc., and hedge fund Marathon Asset Management, a Pacific Lumber creditor. Under the plan, the Scotia sawmill and the timberlands would be transferred to a new company, 85% owned by Mendocino and 15% by Marathon. Another new company owned by Marathon would take control of the town, a power plant and some former mill sites.

The companies say they would continue to log Pacific Lumber's forests and operate the sawmill, although about 100 jobs would be lost by merging operations with Mendocino. The plan has the support of Pacific Lumber, Maxxam and state and local officials, says Mendocino Chairman Sandy Dean.

But Scotia Pacific's bondholders, who hold the timberlands as collateral, want to auction the property, according to court transcripts. Scotia Pacific issued more than \$700 million in secured bonds on the timberland in 1998. The bondholders have rejected a \$530 million offer from Mendocino and Marathon to pay off the bonds.

Scotia Pacific is backing an auction, saying it has a fiduciary duty to maximize the sale price. The bondholders' lawyers declined to comment.

California Gov. Arnold Schwarzenegger, a consortium of state agencies and U.S. Rep. Mike Thompson endorsed the Mendocino-Marathon plan in April, and Judge Schmidt said in a May 15 hearing that the plan will be confirmed if it is legally viable.

The dispute has engaged an unusually large and diverse number of players. Billionaire Texas banker Andrew Beal made a nonbinding offer of \$603 million for the timberlands in April through his Scotia Redwood Foundation. The Nature Conservancy, in partnership with [Bank of America Corp.](#) and Save-the-Redwoods League, also has expressed a desire to purchase the land.

Timber baron Archie Emmerson, who controls Sierra Pacific Industries, one of the largest private landowners in California, offered to purchase the Scotia mill for \$45 million, but seeks a long-term, exclusive contract for the logs from the timberlands.

The widespread interest in Pacific Lumber's forests reflects the company's notable and controversial history. Maxxam, led by Houston businessman Charles Hurwitz, used junk bonds in 1986 to purchase the 140-year-old company, then known for environmentally conscious forestry practices. Maxxam accelerated logging in the redwood-dominated timberlands, setting off an environmental firestorm that resulted in stricter regulations and the contribution of 5,600 acres of Pacific Lumber property to the Headwaters Forest Reserve in 1999.

Pacific Lumber also owns the town of Scotia, including 274 homes, a school, a movie theater and a shopping district. Supporters of the Mendocino-Marathon plan say Pacific Lumber's viability is essential for the economic well-being of the approximately 800 residents of Scotia and the people and businesses of surrounding Humboldt County, about 240 miles north of San Francisco. Jill Geist, chairwoman of the county Board of Supervisors, says residents of Scotia have depended on the company for jobs, housing and medical care for decades. An auction, she says, would lead to "employment uncertainty [and] housing uncertainty." Scotia Pacific couldn't be reached for comment about the town.

Frank Bacik, vice president and general counsel of Pacific Lumber, says that although the company has chosen to support the Mendocino-Marathon plan, he doesn't believe an auction will lead to unsustainable practices. "We do not think that somebody else operating the enterprise will lead to harm to the environment," he says.