



Mattole Restoration Council
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**Alliance for Sustainable Jobs
and the Environment**
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Humboldt Watershed Council
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May 30, 2007

John D. Fiero
Pachulski, Stang, Ziehl, Young, Jones & Weintraub
Counsel to the Official Creditors Committee
150 California Street, 15th Floor
San Francisco, CA 94111-4500

Zack A. Clement
Fulbright & Jaworski, LLP
Counsel to the Ad Hoc Committee of Noteholders
Fulbright Tower
1301 McKinney Street, Suite 5100
Houston, TX 77010-3095

**Re: Scotia Development LLC, et al
Support for Motion to Pay Severance**

Dear Mr. Fiero and Mr. Clement,

We are writing on behalf of the Humboldt Watershed Council, the Mattole Restoration Council, and the Alliance for Sustainable Jobs and the Environment to inform you of our organizations' support for the motion by debtor Pacific Lumber Company (PL) to pay the promised severance to those PL workers who were terminated by the company on December 1, 2006. We are asking that the Creditors' Committee and the Ad Hoc Committee of Noteholders support this motion.

We note that it's impossible to determine from the motion why only 60 of the 99 terminated workers are "qualifying terminated employees" entitled to severance. Paragraph 9 of the motion suggests that any employee with six-months continuous service qualifies for severance. But under Paragraph 10, it appears that an employee must have five years' of service to qualify. All 99 former employees and their families have suffered the effects of the terminations, and we urge both committees to ensure that PL applies its severance policy - whatever it is - fairly to all.

We understand that this motion is, perhaps, unusual in that it asks for a priority payment of certain pre-petition claims which, under Chapter 11, are not deemed essential for the ongoing operations of the company. However, these small claims are essential to the health and well-being of the affected workers and their families and, in turn, our broader community.

The motion asks to pay a total of \$843,890.78, in payments ranging from a low of \$1,520 to a high of \$54,000, for an average of \$14,065 per employee. The aggregate amount of these claims is very small relative to the large number of workers and families to whom the claims are owed.

These claims are quite similar in size and effect to the pre-petition claims for wages and benefits by the companies' employees and the numerous small claims by the companies' vendors. The average claim for wages for PL and Scopac's 485 employees is just \$5,099.¹ The average claim for the combined companies' 648 vendors and worker's compensation beneficiaries is \$17,033.² All of these small claims

¹ *Pacific Lumber Company Schedule and Scotia Pacific Schedule* (Docket #426 and #420), March 6, 2007.

² *Pacific Lumber Company Schedule and Scotia Pacific Schedule* (Docket #426 and #420), March 6, 2007.

combined, along with the severance, add up to just over \$14 million to settle nearly 1,200 claims, the majority of which are to local businesses and families here in Humboldt County.

The hundreds of workers, families, and small businesses who are owed these small claims are not responsible for the failure and downfall of this company. They worked hard and did their jobs, trusting that the company had their best interests at heart. Many of these former employees have little or no current income and are depending upon this promised severance for basic needs such as paying their mortgage or feeding their families.

By contrast, former PL CEOs John Campbell and Robert Manne are owed \$494,348 and \$350,679, respectively. The payout to these two men adds up to \$845,027, more than the combined severance for all 60 of the workers covered by the motion.

Similarly, the companies' army of lawyers and consultants are set to benefit from these proceedings, with numerous individuals charging fees of \$425 to \$815 per hour. Payments to these consultants so far appear to exceed \$2 million a month. The debtor recently requested, and was granted the privilege of paying these high-priced consultants for yet another four months,³ likely increasing the companies' indebtedness by another \$8 million or more. PL thus voluntarily committed itself to a future expenditure that is ten times the cost of paying this severance.

Even these large claims by the debtor's executives and consultants pale in comparison to the claims by the debtor's parent, Maxxam Corporation. Maxxam finds itself in the conspicuous position of being the single largest unsecured creditor for its own subsidiaries, with claims of nearly \$40 million.⁴

In addition, PL and its affiliates have nearly \$20 million in claims against each other. Combined, these numerous claims for internal disbursements between the companies' executives, the various affiliates and their parent Maxxam add up to over \$60 million; more than four-times all of the other unsecured claims combined.

It is clear from the record that Pacific Lumber had reasonable foreknowledge that it would not be able to make good on its promised severance to these workers when their jobs were terminated on December 1. The company had talked openly about filing bankruptcy since at least January 2005,⁵ and had a looming interest payment due on January 20, 2007. PL could have taken care of its workers by paying the severance prior to filing but it chose not to, leaving these workers in limbo. As one anonymous PL worker was quoted as saying:

"They knew. Maybe not the rank-and-file workers, but people like Mr. O'Brien [Pacific Lumber's president]. And if he didn't know, he's not any good at his job."⁶

The money to pay this severance was clearly available. Pacific Lumber sent nearly \$8 million dollars upstream to Maxxam in the six months immediately prior to filing bankruptcy. \$465,000 was sent on January 18, the very day they filed.⁷ If the company had the presence of mind on that day to take care of Maxxam, then they should also have been able to take care of their workers.

For years, Maxxam and the top executives of Pacific Lumber have profited handsomely at the expense of the resource upon which their workers depend for their future. They have brought this company to bankruptcy, and now seek to profit further from this process. We trust the Court will be concerned first and foremost with taking care of the many small creditors, who are not culpable for the company's failure, who are owed the least, and to whom the money means the most.

³ *Palco Motion to Extend Exclusive Periods to File and Solicit Plans of Reorganization* (Docket #670), April 20, 2007.

⁴ *Pacific Lumber Company Schedule* (Docket #426), March 6, 2007.

⁵ Tim Reiterman, *Bankruptcy Warning Wields an Ax*, Los Angeles Times, January 25, 2005.

⁶ Hank Sims, *Armistice Day*, North Coast Journal, February 8, 2007.

⁷ *Pacific Lumber Company, Schedule of Financial Affairs, Exhibit 3C* (Docket #429-2), March 6, 2007.

Neither the Humboldt Watershed Council, the Mattole Restoration Council, nor the Alliance for Sustainable Jobs and the Environment stands to benefit in any way from this motion, or from any other claim in this bankruptcy. However, our organizations have a long-standing interest in issues surrounding the Pacific Lumber Company.

The Humboldt Watershed Council has worked for many years to address the harm to downstream property owners and the environment stemming from the Pacific Lumber Company's unsustainable logging practices. Our efforts have made us keenly aware that these impacts cannot be addressed without fixing the company's equally-unsustainable financial structure.

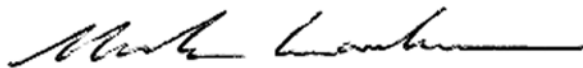
The Mattole Restoration Council is dedicated to improving the natural systems of the Mattole river watershed, in which Pacific Lumber manages 18,000 acres. The Forest Practices Program of the MRC monitors timber harvest and policy, providing review when appropriate.

The Alliance for Sustainable Jobs and the Environment is an alliance between environmental and labor advocates who came together as Maxxam drove Kaiser Aluminum into bankruptcy while simultaneously liquidating the timber base upon which Pacific Lumber's workers depend for their jobs.

Our organizations share a keen interest in a successful reorganization of PL. We define a successful reorganization as one that results in a company with a reasonable capital structure, that engages in sustainable forestry and generates a return for its investors, that provides a steady yield of high-quality timber and living wage jobs, and whose management is able to maintain good, stable relationships with its employees, its neighbors, state and local regulators, and the environmental community.

We will continue to monitor the progress of the reorganization and would welcome the opportunity to share our perspective with all constituencies that share that vision.

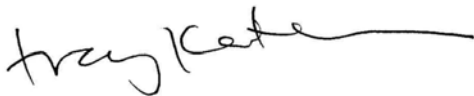
Sincerely,



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cc:
US Bankruptcy Court, Southern District of Texas
Shelby A. Jordan, Counsel for Scotia Development
John F. Higgins, Counsel for Pacific Lumber Company
Kathryn Coleman, Counsel for Pacific Lumber Company
Christine March, U.S. Trustee