



December 20, 2007

To: All Employees

We were recently approached by Marathon Structured Finance Fund L.P. ("Marathon") seeking our support for a possible plan of reorganization of Pacific Lumber Company (Palco) and related 210,000 acres of Scotia Pacific timberlands. Marathon is the largest creditor to Palco and hopes MRC's participation can help avoid a liquidation of the Palco operations. If successful in bankruptcy court, we would form a new business that would immediately seek FSC certification of Scotia Pacific's 210,000 acres of redwood timberlands. We would also plan to operate the Scotia mill, thereby allowing the town of Scotia to remain as a viable community continuing its successful identity as a lumber mill town. All current creditors would receive fair and reasonable court approved settlements of their claims, and many current mill and forest management employees' jobs would be saved.

The holidays are a time to reflect and a time for new beginnings. Many of you joined MRC at its formation nearly ten years ago and were instrumental in formulating our purpose, "To demonstrate it is possible to manage a large block of productive forestlands with a high standard of environmental stewardship, and also operate a successful business." The FSC certification of MRC's lands obtained in the fall of 2000 was the most public recognition of our stewardship objectives, but we have always believed the real impacts of stewardship are best measured on the ground. Our long term approach to forest management has increased conifer inventories 600 million board feet, or just over 25% in less than ten years. More than 40,000 acres of tan oak dominated stands have been carefully treated and replanted in their original conifer mix state. The 11 million dollars invested in aquatic habitat improvement have resulted in some 700,000 yards of sediment being withheld from coastal streams running through our property. The elimination of traditional clear cutting is observable by even casual visitors to our forest lands, and our old-growth protection policy has been successfully implemented down to the individual tree level. While there will always be more to do, these measurable ecological benefits have been achieved in combination with adequate financial results across our operations.

Given our record of being able to work with all the constituencies in the redwood region and attain positive results, we have for some time thought it would be great if we could apply our model on a larger scale. It didn't take long for us to respond favorably to Marathons' vision and request for our support. Court documents show that the mediation ordered by Corpus Christi, Tex. U.S. Bankruptcy Judge Richard Schmidt in October was unsuccessful, and was abandoned last week. Over the coming days it is possible you will hear MRC and or the Fisher family name in the press as being involved in this bankruptcy process. While it is hard to say how things may evolve from here, we hope you see this as a favorable attempt to expand the good works and results accomplished by the MRC team over the past almost ten years.

Sincerely,

Richard Higgenbottom  
CEO  
Mendocino Redwood Company, LLC

Sandy L. Dean  
Chairman  
Mendocino Redwood Company, LLC