EXHIBIT A-3

STATEMENT OF POSITION OF
MENDOCINO REDWOOD COMPANY, LLC AND
MARATHON STRUCTURED FINANCE FUND L.P.

The text of this Exhibit to the Joint Disclosure Statement has been prepared by MRC and Marathon with reference to the MRC/Marathon Plan. All statements and representations herein are the sole responsibility of MRC and Marathon. The other Plan Proponents do not necessarily agree or disagree with any of the statements or representations herein, and expressly reserve all rights to contest any such statements or representations, if appropriate.

The defined terms used in this Exhibit have the meanings set forth in the MRC/Marathon Plan.

As set forth in Section 6 of this Disclosure Statement, MRC and Marathon propose to reorganize the Debtors by integrating the commercial timberland and sawmill operations and managing them in a responsible and sustainable manner pursuant to a business plan developed by MRC. MRC's business plan is described in Section 6 above. MRC and its affiliates are experienced and environmentally responsible operators of an integrated commercial redwood timberland, sawmill and lumber distribution operation located in nearby Mendocino County. MRC and Marathon also propose to restructure the town of Scotia and allow residents to purchase their homes. In addition, the MRC/Marathon Plan will substantially reduce the amount of debt owed by the Debtors to a level that is serviceable from operating profits, provides substantial recoveries to all creditors and preserves jobs, pensions, business operations, and going-concern value.

The principal elements of the MRC/Marathon Plan are as follows:

1. MRC will contribute $200 million of Cash, and Marathon will contribute $25 million of Cash to Newco. Marathon will also convert approximately $135 million of senior secured prepetition and postpetition debt into equity.

2. MRC and Marathon will bring in a new experienced management team from MRC with a proven track record of success in the redwood forest and lumber business. The commercial timberland and sawmill operations will be integrated and managed by MRC, and lumber distribution activities will be added to the sawmill operations.

3. Newco will benefit from approximately $10 million annually of savings from synergies that will be realized as a result of MRC sharing its management, relationships and infrastructure with Newco.

4. MRC will immediately seek Forest Stewardship Council certification of the Debtors' timberlands, and will implement the same forestry practices on the Debtors' timberlands that have been successfully employed on MRC's 230,000 acres in Mendocino County over the last almost ten years (see *www.fscus.org* and *www.mrc.com*).

5. Newco will be run in an environmentally responsible manner and the MRC/Marathon Plan assumes all environmental obligations, without any modification, of the Debtors, including the HCP resulting from the Headwaters Agreement.

6. The debt obligations of the Debtors will be reduced by a total of approximately $625 million, and, as a result, Newco and Townco will be able to responsibly service their debt obligations going forward.

7. Trade creditors will be paid cash in the amount of approximately 75-90% of their claims and will be eligible for further distributions.

8. The Holders of Timber Notes will, subject to certain adjustments, receive $175 million cash, plus new Timber Notes issued in the principal amount of $325 million secured by the Debtors' Timberlands and

be eligible for further distributions.

9. Newco will assume responsibility for the Debtors' Pension Plan.

10. The Town will be reorganized and residents will be offered the opportunity to purchase their homes.

11. Bank of America's claim against Scopac for approximately $37.6 million will be paid in full, except for the payment of default interest, which shall be paid over time in monthly installments.

12. All Allowed administrative and administrative priority Claims of all Debtors will be paid in full.

13. Certain of the Debtors' litigation assets will be pursued by a Litigation Trustee for the benefit of all unsecured creditors.

Most importantly, the MRC/Marathon Plan can be fully implemented following confirmation. The $225 million of new capital provided by MRC and Marathon, and MRC's experienced management team and business plan are committed and ready to be put into operation and assume management positions at Newco. Moreover, there is no financing or due diligence contingency in the MRC/Marathon Plan.

The Debtors' Plans

The Debtors have proposed no less three plans for the Debtors, each of which is fatally flawed:

1. The Debtors purport to pay all creditors in full over time, but the vast majority of creditors would receive no payment for years. Instead, the Debtors propose that Timber Noteholders and General Unsecured Claims would receive just notes and other non-cash instruments promising to pay their claims in the future, at least seven to ten years from the Effective Date. MAXXAM would maintain a 36.6% equity interest in the Palco Debtors and the Palco Debtors would continue to control Scopac. Marathon would receive a controlling equity interest in the Palco Debtors in satisfaction of its DIP Loan and Term Loan Claims. The Debtors' concede that the consent of Marathon and certain other creditors would be required for this plan to be confirmed. Marathon does not consent, and therefore this plan cannot be confirmed.

2. Assuming the Debtors' plan for all Debtors cannot be confirmed. the Debtors have proposed alternative plans, one for the Palco Debtors and one for Scopac. The Debtors' plan for the Palco Debtors would seek to pay General Unsecured Claims some eleven years in the future, and would propose to repay the Palco DIP Loan Claim with loan proceeds obtained from a new $110 million loan facility secured in part by Scopac's assets. Marathon does not believe such financing can be obtained in the present credit market, and even assuming it could be obtained, it would not be approved by the Bankruptcy Court, as it is highly unlikely that the Bankruptcy Court will use the collateral of Timber Noteholders to pay Palco creditors. In addition, the Debtors propose to satisfy Marathon's Term Loan Claim by transferring the assets of the town of Scotia and the Scotia sawmill to Marathon, which would be in violation of the DIP Loan Agreement entered into by the Debtors and approved by the Bankruptcy Court. Accordingly, Marathon submits the Debtors' alternative for the Palco Debtors cannot be confirmed.

3. The Debtors' alternative plan for Scopac would seek to satisfy the Timber Notes in full by transferring the commercial timberlands, just a portion of the Timber Noteholders' collateral, to the Timber Noteholders in full satisfaction of all amounts owed to the Timber Noteholders. The remaining portion of Scopac's assets, the MMCAs and the lands surrounding the MMCAs, would be used as collateral for a loan to repay DIP Loan Claim against Palco and for development by MAXXAM. Marathon does not believe such financing can be obtained in the present credit market, and even assuming it could be obtained, it would not be approved by the Bankruptcy Court, as it is highly unlikely that the Bankruptcy Court will use the collateral of Timber Noteholders to pay Palco creditors. In addition, Marathon submits that the Timber Noteholders

will certainly vigorously oppose the use a portion of their collateral to finance the repayment of the DIP Loan Claim against the Palco Debtors.

A key part of all of the Debtors' various plans is to develop "kingdom homes" in the areas surrounding the environmentally sensitive MMCAs. The Debtors assert that, through the sale of the MMCAs and their luxury home development, they will yield substantial amounts that will be used to repay creditors in full. The Debtors estimate that it will be take some five to eight years to complete the sale of the MMCAs and their luxury home development to generate these revenues. The luxury home development will also require a sizable investment for not only luxury homes, but a hunting lodge, golf course and other features the Debtors believe are necessary for the sale of the luxury homes. The reason this is a key part of the Debtors' various plans is that the Debtors concede that just the cash generated from operating their proposed integrated commercial timberland and sawmill operations will be insufficient to service that debt

MRC and Marathon believe the development of "kingdom homes" is a highly speculative business endeavor. MRC owns significant real estate that is about a two to three hours' drive closer to San Francisco than the Debtors' Timberlands, and MRC does not believe market demand exists on its own lands for a development that would in any way resemble what is being proposed for "kingdom homes" by the Debtors. In addition, MRC and Marathon believe there will be significant opposition to the Debtors' plan from creditors, regulators, the environmental community and local residents. Indeed, the Debtors' proposed luxury home development in the middle of the redwood forest has already generated significant outcry. MRC and Marathon believe the combination of a lack of market demand and opposition to the "kingdom homes" development from multiple constituencies makes it very unlikely to provide the economic reward promised by the Debtors. The Debtors' hopes for monetizing the MMCAs for hundreds of millions of dollars can only be realized if a non-economic buyer is found, and MRC and Marathon believe if a non-economic buyer existed for the MMCAs, such buyer would already have been identified and engaged in a process to purchase the MMCAs long before now.

Accordingly, MRC and Marathon urge creditors to vote against the Debtors' proposed plans.

The Prepetition Indenture Trustee's Liquidation Plan

Liquidation will not Maximize Value

The Prepetition Indenture Trustee for the Timber Notes has proposed a plan of liquidation that requires a sale, within a few months, of Scopac's property, which the Indenture Trustee admits would yield a price insufficient to pay the Timber Noteholders in full. Moreover, in 2004, the Debtors engaged UBS to seek a strategic investment partner or possible sale of Palco and Scopac. UBS contacted 111 parties, and thus the opportunity to invest in Palco and Scopac was presumably marketed to a broad group of qualified buyers. Since that time, for over 13 months the Debtors have remained in bankruptcy. Notwithstanding an extensive marketing effort by a leading investment bank and all the publicity associated with turmoil in the ownership of the Debtors, the Indenture Trustee has failed to produce a fully committed, financed "stalking horse" bidder. In fact, the Indenture Trustee has even failed to produce a "stalking horse" bidder subject to financing or other contingencies. The failure of any such prospective purchaser to emerge indicates that expectations for the robust auction envisioned by the Indenture Trustee are, at best, a hope without any demonstrable factual support.

Liquidation will likely harm Creditors, Employees and Scotia Residents

The Indenture Trustee's plan proposes the appointment of an unidentified board of directors made up of three or more Noteholders. The Indenture Trustee's plan also proposes an unidentified "Plan Agent." The experience of the Indenture Trustee's proposed board of directors and Plan Agent are unknown and their ability to operate the Scopac Timberland operations is uncertain. Failure to maintain a reasonable harvest level from the Scopac Timberlands in 2008 and/or 2009 would make the continued operation of the Scotia sawmill nearly impossible. Therefore it is likely that the Scotia Mill and its employees and the town of Scotia and its residents will face an immediate and drastic impact if the Indenture Trustee's plan is approved.

A liquidation of Scopac would be destructive of value not only for creditors of Scopac, but also for the reorganization efforts of the other Debtors. MRC and Marathon believe a liquidation of Scopac's property greatly reduces the odds of the Scotia Mill being successfully operated for the long term. If the Scotia Mill can not be successfully operated for the long term, the unsecured creditors of Palco will recover little value, the trade creditors of Palco will lose the opportunity for business with Palco in the future, and the residents of the town of Scotia will face a dramatic change in their way of life.

Liquidation will impact the Debtors' compliance with Environmental Obligations

MRC and Marathon believe a liquidation of Scopac may also put the Habitat Conservation Plan associated with the Headwaters Agreement at risk. Under the Indenture Trustee's liquidation plan, it is impossible to identify who will be the ultimate purchaser of the Timberlands and whether that purchaser will respect the CC&Rs associated with AB1986. MRC and Marathon believe that the CC&Rs associated with AB 1986 must be a senior lien to provide all stakeholders in Palco's lands with a public and binding commitment that the HCP from the Headwaters agreement will be honored under all circumstances in the future. Governor Schwarzenegger, Senator Feinstein and Congressman Thompson have all filed pleadings in the Bankruptcy Court stating that the HCP must be honored in all respects by the successor to the Debtors.

Liquidation will reduce recoveries to other Scopac Creditors

The Indenture Trustee has disingenuously asserted that its plan will result in a 100% recovery to Scopac unsecured creditors by providing for a "pot" of $1.45 million for such creditors. That is simply not the case. Because the Indenture Trustee's plan would cause the rejection of the Debtors' Pension Plan, there would be a substantial liability, possibly as much as $25 million, by the PBGC against Scopac, that would dilute recoveries to unsecured creditors to only a few pennies on the dollar. By contrast the MRC/Marathon Plan assumes the Debtors' Pension Plan.

For this and many other reasons, ***the Official Committee for Unsecured Creditors for both Palco and Scopac has urged all unsecured creditors to vote to accept the MRC/Marathon Plan and vote against the plan of the Indenture Trustee***. See Exhibit AA for the complete statement of the Official Committee.

The MRC/Marathon Plan

MRC and Marathon submit that their Plan is based on what is realistically achievable and is supported by a seasoned management team and by the contribution of more than $225 million of cash equity. The MRC/Marathon Plan maximizes value from the Debtors' existing assets. Most creditors would not receive a full recovery, but *will* receive a substantial recovery. Moreover, Newco and Townco will be positioned for success for the long term going forward, benefiting those creditors who will continue to do business with the reorganized companies.

The MRC/Marathon Plan is not based on the extremes of the Debtors and the Indenture Trustee. The Debtors' plan to pay creditors in full is essentially based on the proposed transformation of the redwood forest into a vacation paradise for the wealthy. The plan of the Indenture Trustee is to liquidate its collateral with little if any recovery for other creditors and with no reorganization of the other Debtors, leading to substantial risks for the Mill's operations and employees and the Town's residents.

MRC and Marathon believe they have compiled all the elements of a successful reorganization for all Debtors: an experienced management team, a realistic business plan that maximizes value for all creditors, and the commitment of significant cash. Accordingly, MRC and Marathon urge all creditors to vote in favor of the MRC/Marathon Plan, and to reject the plans of the Debtors and Indenture Trustee.

Summation

MRC and Marathon urge all creditors to:

--Vote to ACCEPT the MRC/Marathon Plan;

--Rank the MRC/Marathon Plan FIRST on the preference election portion of your ballot; and

--Vote to REJECT all other plans.