

## EXHIBIT B-2

### STATEMENT OF POSITION OF THE INDENTURE TRUSTEE

*The text of this Exhibit to the Joint Disclosure Statement has been prepared by the Indenture Trustee with reference to the Indenture Trustee Plan. All statements and representations herein are the sole responsibility of the Indenture Trustee. 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 Indenture Trustee Plan.*

**(a) The Indenture Trustee Plan Provides the Best Return to Scopac's Creditors**

The Indenture Trustee Plan provides for the sale of Scopac's assets to a new owner through a public, commercially reasonable sale designed to market the assets as a going concern in order to attain the highest and best value for the Scopac creditors. It is not a "fire sale" or "foreclosure" of Scopac's assets. Rather, the Indenture Trustee Plan provides for a full and robust marketing process pursuant to bidding and sale procedures approved by the Bankruptcy Court. Based on the opinions of its retained experts, the Indenture Trustee believes that the value of the Scopac assets being sold is at least \$600 million. The Indenture Trustee believes that after potential new owners have had sufficient time to conduct their due diligence, the final sales price will likely increase at the auction. **Regardless of the final sales price, however, the Indenture Trustee Plan provides that the Indenture Trustee will voluntarily carve out from the proceeds of the sale cash of up to \$1.45 million to ensure that holders of all Allowed General Unsecured Claims against Scopac as of the Confirmation Date will receive a distribution anticipated to be 100% of the amount of those Allowed Claims.**

The key provisions of the Indenture Trustee Plan include:

- Assumption of all Environmental Obligations associated with the Timberlands, including the HCP and all related obligations, the CC&Rs, as well as any and all permits, agreements, plans, orders, or other governmental agency authorizations or approvals issued by federal, state, and/or local government agencies with respect to timber harvesting activities or other land use activities on Scopac's Timberlands.
- Projection of **100% recovery** for all of Scopac's creditors who have Allowed Claims on the Confirmation Date, with the exception of the Timber Noteholders and assuming the disallowance of claims by third parties (including contingent claims regarding a pension plan not sponsored by Scopac) which the Indenture Trustee believes are not entitled to recover from the Scopac estate's assets.
- Optional assumption of the New Master Purchase Agreement between Scopac and Palco, thereby providing the owner of the Palco Mill with the option of obtaining a steady supply of logs.
- Retention of all current employees of Scopac, except senior management, in their current capacity for a period of at least one year after closing.
- Removal of MAXXAM from ownership and management.
- Utilization of a market-determined value of Scopac's assets rather than theoretical values determined at an expensive trial.
- Recognition and maintenance of the bargained-for separateness of Scopac as a stand-alone entity on which the Indenture Trustee's constituents relied as the basis for their substantial investment in the Timber Notes.

Scopac, since its formation, has been obligated by law and contract to maintain its separateness from the other debtors and their parents. The very reason Scopac was created was to take title to the timberlands formerly owned by Palco in order to facilitate the issuance of the Timber Notes. Accordingly, the Indenture Trustee has proposed a Plan solely for Scopac which honors Scopac's obligations to its creditors. In contrast, and in direct

violation of the rights of Scopac's creditors, the competing plans propose to expropriate the value of Scopac's assets and redirect it for the benefit of Scopac's parent companies or their lenders.

Despite the assertions made by the Committee and the other Plan Proponents, **confirmation of the Indenture Trustee Plan does not mean that the Palco Mill will be shut-down and the town of Scotia shuttered.** The Indenture Trustee Plan and the attached Exhibit B-3 provide for ongoing commercial timberland operations under the management of the Plan Agent until the assets are sold as a going concern. The ultimate owner of Scopac's assets will continue to manage the forest, harvest logs, pay taxes, employ loggers and truckers, and sell timber to buyers, including the owner of the Palco mill. What confirmation of the Indenture Trustee Plan does mean is that creditors of Scopac will be paid from the assets of Scopac and creditors of the Palco Debtors will be paid from the assets of the Palco Debtors.

Because various parties-in-interest in Scopac's bankruptcy case differ sharply in their assessment of the value of Scopac's assets, the Indenture Trustee has proposed a plan that will avoid a costly trial in which the Bankruptcy Court is asked to determine theoretical values through expert testimony. The Indenture Trustee Plan proposes an open and fair process that will allow the market to set the value of Scopac's assets through an arms' length sale.

The Indenture Trustee believes that its Plan is superior to other plans for Scopac because it: (1) provides the highest return to Scopac's creditors, (2) uses a market-determined value of Scopac's assets to pay Scopac's creditors pursuant to the absolute priority rule, (3) affords all interested parties (including Mendocino Redwood Company) the opportunity to bid for Scopac's assets, and (4) recognizes and maintains the bargained-for separateness of Scopac.

**THE INDENTURE TRUSTEE URGES YOU TO VOTE TO ACCEPT THE INDENTURE TRUSTEE PLAN**

**(b ) The Indenture Trustee's Response to the MRC/Marathon Plan**

Marathon and MRC have proposed a plan that provides for the consolidation of Scopac's Timberlands with the Palco Mill in a newly created entity (Newco) that will be owned entirely by Marathon and MRC. In one sense, the MRC/Marathon Plan is similar to the Indenture Trustee Plan – they both transfer Scopac's collateral to a new owner; however, the Indenture Trustee Plan provides for the sale of Scopac's assets to a new owner through a public, commercially reasonable sale designed to attain the highest and best value for the Scopac creditors. In contrast, Marathon and MRC merely seek to seize for themselves the value of Scopac's assets based on a hypothetical low valuation without providing any opportunity for the creditors of Scopac to preserve their legal and financial positions. As a result, there can be no assurances that the Court will confirm the MRC/Marathon Plan because there can be no assurances that such plan meets all requirements of 11 U.S.C. 1129, including that the plan may not comply with applicable provisions of the Bankruptcy Code.

As noted above, based on the opinions of its retained experts, the Indenture Trustee believes the Commercial Timberlands are worth in excess of \$600 million. In contrast, the MRC/Marathon Plan attempts to transfer all of Scopac's assets to Newco in exchange for \$500 million. The end result of the proposed MRC/Marathon Plan is the transfer of value from the Scopac Estate to the creditors of the Palco Debtors, all to the detriment of Scopac and its creditors. This proposal is directly contrary to one of the Bankruptcy Code's primary goals – the fair and equal distribution of assets to the creditors of a debtor (and not to creditors of an affiliated debtor).

Moreover, the proposed private sale under the MRC/Marathon Plan actually provides two unwarranted benefits to Marathon. First, it attempts to establish a low theoretical value for the Timberlands, and, therefore, enables Marathon to acquire the Timberlands for an unfairly low price. Second, it attempts to avoid a market valuation of the Marathon Collateral pledged as security for the repayment of the \$160 million outstanding under the Palco Term Loan and Palco DIP Loan.

Based on the analysis by its experts, the Indenture Trustee believes that Marathon is actually substantially undersecured. By not permitting a market valuation, Marathon will not have to recognize that it is undersecured. Through this device, Marathon is proposing to give itself dollar-for-dollar credit for the full amount of its claim, rather than sharing pro rata distributions with the general unsecured creditors of the Palco Debtors for any deficiency. Accordingly, instead of receiving the collateral worth potentially half the value of its loans, Marathon will receive a 100% payout (with interest and fees) comprised of stock in Newco potentially worth \$65-70 million or more, an approximately \$25 million senior secured note, and complete ownership of a separate, newly-created subsidiary called Townco, which will own all the assets associated with the town of Scotia, CA, valued by Marathon at approximately \$100 million. The MRC/Marathon Plan compounds this legally impermissible transfer of the value of Scopac's assets (to the detriment of Scopac and its creditors) by proposing to put the unsecured claim of the Indenture Trustee into a separate class that will receive interests in a Litigation Trust containing essentially nothing while also stripping away the lien of the Indenture Trustee on the "Headwaters Litigation."

Putting aside the unfair and inequitable treatment of Scopac's creditors, the alleged synergies to be gained under the MRC/Marathon Plan are mostly illusory with respect to Scopac. The MRC/Marathon Plan anticipates approximately \$8.75 million in cost savings from synergies that will be realized by consolidating Scopac with the Palco Debtors under the management of MRC. However, only approximately \$500,000 of these savings will come from reducing Scopac's costs, while the vast majority of the remainder is associated with enhancing the distribution and sale of lumber from the Palco Mill.

Simply stated, the MRC/Marathon Plan is a Palco creditor plan that seeks primarily to benefit Palco and its creditors, to the detriment of Scopac's creditors using financing derived from the value of Scopac's Timberlands.

#### **THE INDENTURE TRUSTEE URGES YOU TO VOTE TO REJECT THE MRC/MARATHON PLAN**

##### **(c) The Indenture Trustee's Response to the Debtors' Plans**

The Debtors have proposed three different plans, including (i) a joint plan for Scopac and the Palco Debtors, (ii) an alternative plan for Scopac and (iii) an alternative plan for the Palco Debtors. For reasons discussed below, the Indenture Trustee does not believe that any of these plans would provide any greater return to Scopac's creditors than the plan proposed by the Indenture Trustee because each of the Debtors' Plans are based upon implausibly high and unsupportable values. As a result of these implausibly high and unsupportable values, first, there would be expensive and time consuming valuation litigation that will cost the Scopac estate millions of dollars and second, it is likely that any such plan would be followed by liquidation or further reorganization, thus jeopardizing the Debtors' proposed payments to creditors (many of which are not promised to occur until seven (7) years after the Effective Date of the Debtors' Plans). Accordingly, the Debtors various plans are not confirmable and are not feasible as discussed below.

##### **(i) The Debtors Plan**

The Debtors have conceded that the Secured Claims of the Timber Noteholders are "impaired" under the Debtors Plan. Therefore, to be confirmable, the Timber Noteholders must either vote in favor of the Debtors Plan or the Debtors must use the "cramdown" provisions of Bankruptcy Code section 1129(b) to confirm over the Indenture Trustee's rejection of the Debtors Plan. However, Debtors have also conceded that the Debtors Plan does not meet the requirements for cramdown. It is unlikely that the Timber Noteholders will vote in favor of the Debtors Plan and Marathon has unequivocally stated that it will not vote on the plan. Without acceptance from both Marathon and the Timber Noteholders, the Debtors Plan cannot be confirmed.

##### **(1) The Sale of the MMCAs is Not Likely to Generate \$400 Million in Gross Revenues**

The feasibility of the Debtors Plan is largely contingent upon the Debtors' belief that their "Ancient Redwood Groves" (*i.e.*, the MMCAs) will generate \$400 million in gross revenues. This alleged value far exceeds the values determined by the Debtors' own advisors during the 2005 restructuring negotiations with the Timber

Noteholders. In addition, the Debtors' alleged high values ignore regulatory restraints that generally preclude commercial harvest or other economic uses of these lands until at least 2049. For example, Debtors have stated: (i) "The MMCAs contain very valuable timber, but also constitute extremely desirable real estate for a variety of commercial and non-commercial uses, all permissible under applicable state and federal environmental land-use rules and restrictions;" and (ii) the Debtors have a "right to sell the [MMCAs] to third parties for continued timber operations, as well as for any new use that is compatible with applicable law."

The Debtors' assertions are not only contrary to reality, in that the Debtors have not engaged in any significant timber operations on the MMCAs, but they also fail to adequately consider the impact of the environmental and land-use restrictions that are applicable to the MMCAs, including the Habitat Conservation Plan ("HCP"), the Implementation Agreement ("IA"), AB 1986, the Agreement Relating to Enforcement of AB 1986, and the federal and state Incidental Take Permits ("ITPs"), among other requirements. Many of these environmental and land-use restrictions, which heavily regulate commercial harvesting on the MMCAs, apply until March 2049, thus severely impacting the value of the MMCAs.

Accordingly, because the MMCAs are so heavily restricted through 2049, the Indenture Trustee believes that it would be highly unlikely for any sale of the MMCAs to generate \$400 million in gross revenues. Rather, according to the Indenture Trustee's assessment, these restrictions drastically reduce the value for the MMCAs claimed by the Debtors. As a result, the dependence of the Debtors Plan upon the sale at a high price of the already significantly restricted MMCAs and the consequent lack of feasibility, renders the Debtors Plan highly speculative, unconfirmable, and not a viable alternative.

**(2) The Proposed Redwood Preserve Development Project is Not Feasible and is Highly Speculative**

The Debtors' proposed "Redwood Preserve Development Project" is similarly highly speculative and unlikely to provide net revenues anywhere near the levels asserted by the Debtors or on the timetable that they predict, assuming that such a project is even capable of proceeding at all. It is essential to emphasize at the outset that the Debtors have unequivocally stated that the Preserve Project's "*design, density, location, configuration scale and scope . . . are yet to be determined.*" Thus, the Debtors have only vaguely and broadly described their proposed Preserve Project and have provided no support for any quantitative conclusions about their proposal, including their assertion that the Preserve Project has a present value of \$250 million. Despite the lack of detail provided by the Debtors regarding their proposal, it is possible to make a general evaluation of the potential merits of a residential development proposal. That general evaluation leads to the clear conclusion that there are such significant environmental and regulatory obstacles, substantial practical difficulties, and public controversy surrounding the project that it is highly unlikely that the Debtors will be able to generate the projected returns in the anticipated timeframe.

In order to produce net present value revenues of \$250 million, the Preserve Project would need to be of a nature and scale that is unprecedented in Humboldt County, California history. Underlying the proposal is the untested and unsupported assumption that a robust market exists for a relatively large number of luxury homesites on Scopac's timberlands (despite the fact that they are generally rugged, remote from infrastructure and urban amenities, heavily logged, and not in proximity to an attractive destination such as a world-class ski resort, golf course, or the like). The Debtors have provided no basis for assuming that any such market exists for this project.

The Debtors' proposal is also certain to generate considerable public controversy, as already evidenced by the Humboldt County Board of Supervisor's prior opposition to a similar proposal by the Debtors. As it is currently framed, the development site would be adjacent to the federally-protected Headwaters Forest and the MMCAs. It would be located on lands containing habitat for, and generally occupied by, protected species such as the northern spotted owl, marbled murrelet, and several species of protected fish. Such a development on Scopac's commercial timberlands also would be in tension with state and local policies generally to retain such lands in commercial timber production. Humboldt County also has an established environmental activist community that has vigorously opposed the Debtors' activities for decades, including through the use of civil disobedience and litigation. This does not present a favorable context for pursuing a high-revenue residential development in the area.

Moreover, in order for the Debtors' Preserve Project to proceed at all, development would need to be approved by multiple governmental agencies under numerous regulatory programs. In particular, all of the existing regulatory approvals for the Preserve Project lands are limited to *timber harvesting*. For a *residential development* of this kind to proceed, new or amended federal and state incidental take permits and supporting analyses would be needed. Failure to obtain even one of the required authorizations, or to successfully defend all of these approvals if obtained, would cause the proposal to fail. The concessions that would be needed to obtain these regulatory consents could be anticipated to increase project costs and/or reduce project revenues substantially, quite possibly to the point of eliminating the project's economic feasibility. Accordingly, even at best, the Preserve Project would most likely be capable of producing only minimal net revenues following a lengthy and uncertain entitlement process.

In sum, the Indenture Trustee believes that the significant environmental and regulatory obstacles, the substantial practical difficulties faced, the corresponding low probability of success, and the controversial nature of the project, render the Debtors' proposed development project and the Debtors Joint Plan speculative, unconfirmable, and not a viable alternative.

### **THE INDENTURE TRUSTEE URGES YOU TO VOTE TO REJECT THE DEBTORS PLAN**

#### **(d) The Scopac Alternative Plan**

The Scopac Alternative Plan, under which Scopac will still pursue the same sale of the "Ancient Redwood Groves" and the Redwood Preserve Development Project as proposed in the Joint Plan, suffers from the same lack of feasibility discussed above. As with the Debtors' other Plans, the Scopac Alternative Plan relies entirely upon the theoretical and implausibly high values that Scopac has attributed to its commercial timberlands. The Debtors will be unable to prove these theoretical values and, therefore, the Scopac Alternative Plan cannot be confirmed. In particular, because the Timber Noteholders are unlikely to vote to accept the Scopac Alternative Plan, this Plan can only be confirmed if it can be crammed down on the Timber Noteholders. For reasons discussed below, however, the Scopac Alternative Plan cannot be crammed down.

The Scopac Alternative Plan proposes to transfer only a portion of the Indenture Trustee's collateral to the Indenture Trustee in purported full satisfaction of its entire Secured Claim. Such a partial return of collateral is not only fundamentally unfair to the Timber Noteholders, but it does not provide them with the "indubitable equivalent" of their claim as required by section 1129(b)(2)(A)(iii) of the Bankruptcy Code.

Moreover, because this partial transfer of collateral is of a lesser quality than that for which the Indenture Trustee initially bargained, the Indenture Trustee faces a significant risk of not receiving full payment on its secured claim. Bankruptcy Courts have generally not approved plans in which a debtor purports to value real estate collateral and then transfer only so much of the collateral as is necessary to satisfy the secured creditor's claim. The Indenture Trustee believes that, especially in this case where the parties-in-interest differ sharply in their assessment of the value of Scopac's assets, the Scopac Alternative Plan's proposed partial return of collateral is not confirmable.

Further, in order to confirm the Scopac Alternative Plan, Scopac is required to prove that the Indenture Trustee would receive more under the Scopac Alternative Plan than it would in a chapter 7 liquidation of the assets. In a chapter 7 liquidation, however, the Indenture Trustee would obtain the value of all of its collateral, including the commercial timberlands, the MMCA's and the lands that the Debtors intend to use for the Redwood Preserve Project. Thus, Scopac, almost by definition, cannot prove that Indenture Trustee receives more value under the Scopac Alternative Plan than in a chapter 7 liquidation.

For all of the foregoing reasons, the Indenture Trustee believes that the Scopac Alternative Plan is legally deficient, is not feasible, and thus, the Scopac Alternative Plan cannot be confirmed.

**THE INDENTURE TRUSTEE URGES YOU TO VOTE  
TO REJECT THE SCOPAC ALTERNATIVE PLAN**

**(e) The Palco Alternative Plan**

With respect to the Palco Alternative Plan, the Debtors have admitted that “the Palco Alternative Plan, which depends on the preservation of a portion of Palco’s equity in Scopac via a successful confirmation of the Scopac Alternative Plan, can be confirmed only if the Scopac Alternative Plan, or its economic equivalent, also is confirmed.”

Because the Scopac Alternative Plan is legally deficient and is not feasible as discussed above, the Indenture Trustee believes that the Palco Alternative Plan cannot be confirmed.

**THE INDENTURE TRUSTEE URGES YOU TO VOTE  
TO REJECT THE PALCO ALTERNATIVE PLAN**

Accordingly, the Indenture Trustee urges Scopac’s creditors to vote:

- (1) to accept the Indenture Trustee Plan, which (i) provides for an estimated 100% payout to unsecured creditors (assuming the disallowance of claims by third parties (including contingent claims regarding a pension plan not sponsored by Scopac) which the Indenture Trustee believes are not entitled to recover from the Scopac estate’s assets), (ii) allows the market to determine the value of the Timberlands, and (iii) uses the value of Scopac’s assets for the benefit of Scopac’s creditors;
- (2) to reject the Debtors Joint Plan;
- (3) to reject the Scopac Alternative Plan;
- (4) to reject the Marathon Plan; and

Even if you decide to vote in favor of the Debtors’ Joint Plan, the Scopac Alternative Plan, the Palco Alternative Plan or the Marathon/MRC Plan, **you should also vote in favor of the Indenture Trustee Plan** (under which Marathon can elect to include its Palco Debtor Collateral in the sale of Scopac assets) and rank it first on the preference election portion of your ballot in order to avoid a potential chapter 7 liquidation of the assets of the Palco Debtors in the likely event that the other plans are not confirmed.