
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2000

Commission File Number 333-63825

SCOTIA PACIFIC COMPANY LLC

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

68-0414690

(I.R.S. Employer
Identification Number)

P. O. Box 712

125 Main Street, 2nd Floor

Scotia, California

(Address of Principal Executive Offices)

95565

(Zip Code)

Registrant's telephone number, including area code: **(707) 764-2330**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

The Registrant is a limited liability company wholly owned by an affiliate of the Registrant.

Registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

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SCOTIA PACIFIC COMPANY LLC

BALANCE SHEET
(In millions of dollars)

	<u>September 30,</u> <u>2000</u> (Unaudited)	<u>December 31,</u> <u>1999</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1.6	\$ 1.3
Marketable securities, restricted	16.3	15.9
Receivables from Pacific Lumber	18.6	4.5
Prepaid timber harvesting costs	7.7	4.4
Other prepaid expenses and current assets	<u>0.4</u>	<u>0.4</u>
Total current assets	44.6	26.5
Timber and timberlands, net of accumulated depletion of \$256.3 and \$249.0, respectively	263.3	267.8
Property and equipment, net of accumulated depreciation of \$10.8 and \$9.5, respectively	18.8	16.5
Deferred financing costs, net	18.6	20.7
Restricted cash and marketable securities	110.2	156.9
Other assets	<u>7.6</u>	<u>2.7</u>
	<u>\$ 463.1</u>	<u>\$ 491.1</u>
Liabilities and Member Deficit		
Current liabilities:		
Due to Pacific Lumber	\$ 1.6	\$ 0.9
Accrued interest	11.6	28.1
Other accrued liabilities	2.2	2.0
Short-term borrowings and current maturities of long-term debt	<u>21.0</u>	<u>16.0</u>
Total current liabilities	36.4	47.0
Long-term debt, less current maturities and excluding \$39.8 of Timber Notes held in SAR Account	<u>787.4</u>	<u>843.5</u>
Total liabilities	<u>823.8</u>	<u>890.5</u>
Contingencies		
Member deficit	<u>(360.7)</u>	<u>(399.4)</u>
	<u>\$ 463.1</u>	<u>\$ 491.1</u>

The accompanying notes are an integral part of these financial statements.

SCOTIA PACIFIC COMPANY LLC

STATEMENT OF INCOME (LOSS)
(In millions of dollars)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)			
Log sales to Pacific Lumber	\$ 47.3	\$ 19.1	\$ 94.4	\$ 33.8
Operating expenses:				
General and administrative	6.1	3.5	13.8	8.2
Depletion, depreciation and amortization	3.9	2.4	9.4	5.2
	<u>10.0</u>	<u>5.9</u>	<u>23.2</u>	<u>13.4</u>
Operating income	<u>37.3</u>	<u>13.2</u>	<u>71.2</u>	<u>20.4</u>
Other income (expense):				
Interest and other income	2.4	0.1	6.2	0.6
Interest expense	<u>(15.6)</u>	<u>(16.6)</u>	<u>(47.6)</u>	<u>(49.2)</u>
Income (loss) before extraordinary item	24.1	(3.3)	29.8	(28.2)
Extraordinary item:				
Gain on repurchase of debt	0.2	—	2.6	—
Net income (loss)	<u>\$ 24.3</u>	<u>\$ (3.3)</u>	<u>\$ 32.4</u>	<u>\$ (28.2)</u>

The accompanying notes are an integral part of these financial statements.

SCOTIA PACIFIC COMPANY LLC

STATEMENT OF CASH FLOWS
(In millions of dollars)

	Nine Months Ended September 30,	
	2000	1999
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 32.4	\$ (28.2)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Gain on sale of assets	–	(0.2)
Gain on repurchase of debt	(2.6)	–
Depletion, depreciation and amortization	9.4	5.2
Amortization of deferred financing costs	1.1	1.2
Net purchases of marketable securities, restricted	(0.4)	–
Increase (decrease) in cash resulting from changes in:		
Receivables from Pacific Lumber	(14.1)	(4.8)
Prepaid timber harvest costs	(3.4)	(1.7)
Due to Pacific Lumber	0.3	0.1
Accrued interest	(16.5)	(16.0)
Other accrued liabilities	0.3	0.5
Net cash provided by (used for) operating activities	<u>6.5</u>	<u>(43.9)</u>
Cash flows from investing activities:		
Capital expenditures	(6.1)	(17.8)
Restricted cash withdrawals used to acquire timberlands	0.8	12.9
Net proceeds from sale of assets	–	0.3
Net cash used for investing activities	<u>(5.3)</u>	<u>(4.6)</u>
Cash flows from financing activities:		
Principal payments on Timber Notes and other timber related debt	(15.9)	(8.3)
Net borrowings under line of credit agreement	4.6	17.7
Incurrence of deferred financing costs	–	(0.2)
Net changes in debt related restricted cash and marketable securities	10.4	–
Member contributions	–	8.2
Net cash provided by (used for) financing activities	<u>(0.9)</u>	<u>17.4</u>
Net increase (decrease) in cash and cash equivalents	0.3	(31.1)
Cash and cash equivalents at beginning of period	1.3	31.9
Cash and cash equivalents at end of period	<u>\$ 1.6</u>	<u>\$ 0.8</u>
Supplementary schedule of non-cash investing and financing activities:		
Contribution of timber and timberlands by Pacific Lumber	\$ –	\$ 6.1
Contribution of SYP/HCP related costs by Pacific Lumber	5.7	–
Repurchases of debt using restricted cash and marketable securities	36.1	–
Supplemental schedule of cash flow information:		
Interest paid	\$ 63.0	\$ 64.0

The accompanying notes are an integral part of these financial statements.

SCOTIA PACIFIC COMPANY LLC

CONDENSED NOTES TO FINANCIAL STATEMENTS

1. General

The information contained in the following notes to the financial statements is condensed from that which would appear in the annual financial statements; accordingly, the financial statements included herein should be reviewed in conjunction with the financial statements and related notes thereto contained in the Form 10-K. Any capitalized terms used but not defined in these Condensed Notes to Financial Statements are defined in the "Glossary of Defined Terms" contained in Appendix A. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire year.

The financial statements included herein are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the financial position of the Company at September 30, 2000, the results of operations for the three and nine months ended September 30, 2000 and 1999 and the cash flows for the nine months ended September 30, 2000 and 1999. The Company is a wholly owned subsidiary of Pacific Lumber which is a wholly owned subsidiary of MGI. MGI is a wholly owned subsidiary of MGHI, which is a wholly owned subsidiary of MAXXAM.

2. Headwaters Transactions

On March 1, 1999, the United States and California acquired the Headwaters Timberlands, approximately 5,600 acres of timberlands containing a significant amount of virgin old growth timber, from Salmon Creek and Pacific Lumber. Salmon Creek received \$299.9 million for its 4,900 acres, and for its 700 acres, Pacific Lumber received the 7,700 acre Elk River Timberlands, which Pacific Lumber contributed to the Company in June 1999. See Note 5 below for a discussion of additional agreements entered into on March 1, 1999.

The Company also entered into an agreement with California for the future sale of a timber property known as the Owl Creek grove. Under this agreement, the Company would sell the Owl Creek grove to California by June 30, 2001, for the lesser of the appraised fair market value or \$79.7 million. The sale of the Owl Creek grove will not be reflected in the Company's financial statements until it has been concluded.

3. Restricted Cash and Marketable Securities

Cash and marketable securities include the following amounts which are restricted (in millions):

	September 30, 2000 (Unaudited)	December 31, 1999
Current assets:		
Marketable securities, restricted:		
Amounts held in SAR Account	\$ 16.3	\$ 15.9
Long-term restricted cash and marketable securities:		
Amounts held in SAR Account	143.4	153.2
Amounts held in Prefunding Account	2.5	3.3
Other amounts restricted under the Indenture	0.4	0.4
Less: Amounts attributable to Timber Notes held in SAR Account	(36.1)	—
	<u>110.2</u>	<u>156.9</u>
Total restricted cash and marketable securities	<u>\$ 126.5</u>	<u>\$ 172.8</u>

Subsequent to September 30, 2000, \$16.3 million of funds held in the SAR Account were used to repurchase \$20.2 million of principal amount of Timber Notes. This repurchase is expected to result in an extraordinary gain of approximately \$3.9 million in the fourth quarter of 2000.

4. Comprehensive Income (Loss)

Comprehensive income (loss) includes the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net income (loss)	\$ 24.3	\$ (3.3)	\$ 32.4	\$ (28.2)
Other comprehensive income:				
Change in value of available-for-sale investments	0.6	—	0.6	—
Total comprehensive income (loss)	<u>\$ 24.9</u>	<u>\$ (3.3)</u>	<u>\$ 33.0</u>	<u>\$ (28.2)</u>

5. Contingencies

Regulatory and environmental matters play a significant role in the Company's business, which is subject to a variety of California and federal laws and regulations, as well as the HCP and SYP and Pacific Lumber's 2000 timber operator's license, dealing with timber harvesting practices, threatened and endangered species and habitat for such species, and air and water quality. As further described in Note 2 "Headwaters Transactions," on March 1, 1999, Pacific Lumber and MAXXAM consummated the Headwaters Agreement with the United States and California. In addition to the transfer of the Headwaters Timberlands described in Note 2, the SYP and the HCP were approved and the Permits were issued.

The SYP complies with certain California Board of Forestry regulations requiring timber companies to project timber growth and harvest on their timberlands over a 100-year planning period and to demonstrate that their projected average annual harvest for any decade within a 100-year planning period will not exceed the average annual harvest level during the last decade of the 100-year planning period. The SYP is effective for 10 years (subject to review after five years) and may be amended by Pacific Lumber, subject to approval by the CDF. Revised SYPs will be prepared every decade that address the harvest level based upon reassessment of changes in the resource base and other factors. The HCP and the Permits allow incidental "take" of certain species located on the Company's timberlands which have been listed as endangered or threatened under the ESA and/or CESA so long as there is no "jeopardy" to the continued existence of such species. The HCP identifies the measures to be instituted in order to minimize and mitigate the anticipated level of take to the greatest extent practicable. The SYP is also subject to certain of these provisions. The HCP and related Permits have a term of 50 years. The Company believes that the SYP and the HCP should in the long-term expedite the preparation and facilitate approval of its THPs, although the Company is experiencing difficulties in the THP approval process as it implements these agreements.

Under the Federal Clean Water Act, the EPA is required to establish TMDLs in water courses that have been declared to be "water quality impaired." The EPA and the North Coast Regional Water Quality Control Board are in the process of establishing TMDLs for 17 northern California rivers and certain of their tributaries, including nine water courses that flow within the Company's timberlands. The Company expects this process to continue into 2010. In the December 16, 1999 EPA report dealing with TMDLs on two of the nine water courses, the agency indicated that the requirements under the HCP would significantly address the sediment issues that resulted in TMDL requirements for these water courses. However, the September 11, 2000 report by the staff of the North Coast Regional Water Quality Control Board proposed various actions including restrictions on harvesting beyond those required under the HCP. Hearings concerning these matters are scheduled for February 2001. Establishment of the final TMDL requirements applicable to the Company's timberlands will be a lengthy process, and the final TMDL requirements applicable to the Company's timberlands may require aquatic protection measures that are different from or in addition to the prescriptions to be developed pursuant to the watershed analysis process provided for in the HCP.

Lawsuits are pending and threatened which seek to prevent the Company from implementing the HCP and/or the SYP, implementing certain of the Company's approved THPs or carrying out certain other operations. On December 2, 1997, the *Wrigley lawsuit* and the *Rollins lawsuit* were filed against the Company, certain of its affiliates and others. These actions allege, among other things, that the defendants' logging practices have damaged the plaintiffs' properties and property values by contributing to landslides in Stafford, California, (*Rollins lawsuit*) and an increase in flooding and damage to domestic water systems in a portion of the Elk River watershed (*Wrigley lawsuit*). The Company believes that it has strong factual and legal defenses with respect to these matters; however, there can be no

assurance that they will not have a material adverse effect on its financial position, results of operations or liquidity. On March 31, 1999, the *EPIC-SYP/Permits lawsuit* was filed alleging various violations of the CESA and the CEQA, and challenging, among other things, the validity and legality of the Permits issued by California and the SYP. On March 31, 1999, the *USWA lawsuit* was filed also challenging the validity and legality of the SYP. The Company believes that appropriate procedures were followed throughout the public review and approval process concerning the HCP and the SYP, and the Company is working with the relevant government agencies to defend these challenges. Although uncertainties are inherent in the final outcome of the *EPIC-SYP/Permits lawsuit* and the *USWA lawsuit*, the Company believes that the resolution of these matters should not result in a material adverse effect on its financial condition, results of operations or the ability to harvest timber. While the Company expects environmentally focused objections and lawsuits to continue, it believes that the HCP, the SYP and the Permits should enhance its position in connection with these continuing challenges and, over time, reduce or minimize such challenges.

6. Member Deficit

A reconciliation of the activity in member deficit is as follows (in millions):

	Nine Months Ended September 30, 2000
Balance at beginning of period	\$ (399.4)
Net income	32.4
Contribution of assets by Pacific Lumber	5.7
Other comprehensive income	0.6
Balance at end of period	<u>\$ (360.7)</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the response to Part I, Item 1 of this Report and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statements and Supplementary Data" of the Form 10-K. Any capitalized terms used but not defined in this Item are defined in the "Glossary of Defined Terms" contained in Appendix A.

This Quarterly Report on Form 10-Q contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this section and in Part II. Item 1. "Legal Proceedings." Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, new or modified statutory or regulatory requirements and changing prices and market conditions. This Form 10-Q and the Form 10-K identify other factors that could cause such differences. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

Results of Operations

General

The Mbfe concept was used in structuring the Timber Notes in order to take account of the relative values of the species and categories of timber included in the Company Timber. Under the Mbfe concept, one thousand board feet, net Scribner scale, of old growth redwood timber equates to one Mbfe. One thousand board feet, net Scribner scale, of each other species and category of timber included in the Company Timber was assigned a value in Mbfe equal to a fraction of a Mbfe. This fraction was generally determined by dividing the SBE Price applicable to such species and category for the first half of 1998 by the SBE Price applicable to old growth redwood for the first half of 1998. Historical harvest volumes reflected in this report are stated on an Mbfe basis.

The Master Purchase Agreement generally contemplates that all sales of logs by the Company to Pacific Lumber will be at the SBE Price. Harvest Value Schedules setting forth the SBE Prices are published by the California State Board of Equalization twice a year for the purpose of computing a yield tax imposed on timber harvested between January 1 and June 30 and July 1 and December 31. Harvest Value Schedules are based on twenty-four months of actual log and timber sales that occur within nine specified timber value areas. These sales are arms length transactions adjusted for time by indexing (using log and, in the case of redwood, log and lumber price trends) to a specific date, which is approximately sixty days prior to the effective date of the Harvest Value Schedules. However, SBE prices may not necessarily be representative of actual prices that would be realized from unrelated parties at subsequent dates.

Seasonality

Logging operations on the Company's timberlands are highly seasonal and have historically been significantly higher in the months of April through November than in the months of December through March. Management expects that the Company's revenues and cash flows will continue to be markedly seasonal. The impact of seasonality on the Company's results is expected to become more pronounced than it has been historically because of the harvesting, road use, wet weather and other restrictions imposed by the HCP. As a result, a substantial majority of the future harvesting on the Company's timberlands can be expected to be concentrated during the period from June through October of each year. Some of these restrictions may be modified under the adaptive management provision contained in the HCP and as a result of the watershed analysis process to be performed over the five-year period beginning March 1, 1999. See Note 5 to the Financial Statements.

Log sales to Pacific Lumber

Net sales from logs were \$47.3 million and \$19.1 million for the three months ended September 30, 2000 and 1999, respectively. The increase was due to a substantial increase in SBE Prices as well as an increase in log delivery volumes. The volume of log deliveries for such periods represented approximately 36,500 Mbfe and 24,000 Mbfe, respectively. Net sales from logs were \$94.4 million and \$33.8 million for the nine months ended September 30, 2000

and 1999, respectively. This represents a log volume of 84,300 Mbfe and 47,400 Mbfe, respectively. As with the increase between the quarters, the increase in net sales between periods was due to a substantial increase in SBE prices as well as an increase in log delivery volumes. The favorable variance in log volumes is the result of the increase in the available-to-log THPs; however, the supply of approved THPs remains well below that available prior to 1998 and that required to meet the Company's operating objectives. See "—Trends" for further discussion of the factors affecting the supply of approved THPs.

Operating income and net income (loss)

Operating income was \$37.3 million and \$13.2 million for the three months ended September 30, 2000 and 1999, respectively. Operating income was \$71.2 million and \$20.4 million for the nine months ended September 30, 2000 and 1999, respectively. The increase in operating income is principally due to the increase in log sales discussed above. This was slightly offset by an increase in general and administrative expenses due to the addition of personnel, higher road maintenance costs and additional yield taxes which are based on harvest volume. Depletion and depreciation increased as a result of increased harvest levels.

The increase in net income is principally due to the increase in operating income discussed previously as well as an increase in interest income resulting from investment of the funds held in the SAR Account and, for the nine months ended September 30, 2000, from an extraordinary gain of \$2.6 million on reacquisition of Timber Notes (which are being held in the SAR Account).

Financial Condition and Investing and Financing Activities

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See above for cautionary information with respect to such forward-looking statements.

During the nine months ended September 30, 2000, \$36.1 million in funds from the SAR Account were used to reacquire Timber Notes, representing \$39.8 million in principal, as permitted under the Indenture. In October 2000, an additional \$16.3 million in funds from the SAR Account were used to reacquire Timber Notes, representing \$20.2 million in principal. As of September 30, 2000, the fair value of funds held in the SAR Account, including the reacquired Timber Notes, was \$162.7 million.

On the July 20, 2000, note payment date for the Timber Notes, the Company had \$3.1 million in cash available to pay the \$31.1 million of interest due. The Company borrowed the remaining \$28.0 million in funds under the Line of Credit. In addition, the Company repaid \$2.9 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

As of September 30, 2000, \$4.6 million was outstanding under the Line of Credit which was subsequently paid on October 20, 2000.

With respect to short-term liquidity, the Company expects that it will generate sufficient cash from operations to pay all of the interest on the Timber Notes on the January 22, 2001, payment date; however, given the uncertainties concerning the ability of the Company to obtain THP approvals, restrictions on winter harvesting operations and other matters, there can be no assurance that this will be the case. Any shortfall would be borrowed under the Line of Credit. The Company also expects that all or a portion of the funds used to pay the Scheduled Amortization amount will be provided from the SAR Account.

Pacific Lumber's financial condition will affect its ability to purchase logs from the Company and to meet its obligations under the Services Agreement. Pacific Lumber expects that near-term cash flows from operations will be adversely affected by an inadequate supply of logs and a related slowdown in lumber production. Pacific Lumber anticipates that it will require funds available under Pacific Lumber's revolving credit agreement, repayments by MGI of an intercompany loan and/or capital contributions from MGI to enable it to meet its working capital and capital expenditure requirements for the remainder of 2000 and until mid-2001. With respect to long-term liquidity, although Pacific Lumber expects that its existing cash and cash equivalents should provide sufficient funds to meet its working capital and capital expenditure requirements, until such time as Pacific Lumber has adequate cash flows from operations and/or dividends from the Company, there can be no assurance that this will be the case.

With respect to long-term liquidity, the Company believes that its existing cash, including cash available for principal payments from the SAR Account, and funds available under the Line of Credit, together with its ability to generate sufficient levels of cash flows from operations over the long term, should provide sufficient funds to meet its long-term working capital, capital expenditures and required debt service obligations. If the Company generates excess funds after the payment of operating expenses, capital expenditures, interest, premiums, required principal payments and replenishment of the SAR Account, it may at its option either pay dividends, retain these funds for internal purposes or make voluntary principal payments. Cash flows from operations may continue to be adversely affected if the Company does not experience improvements in the THP submission and approval process, or if inclement weather conditions or seasonal operating restrictions under the HCP hamper harvesting operations. Cash flows from operations would also be adversely affected if additional judicial or regulatory restrictions are imposed on the Company's harvesting activities, or if the Environmental Plans are not implemented in accordance with the Company's expectations.

Trends

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See above for cautionary information with respect to such forward-looking statements.

Regulatory and environmental matters play a significant role in the Company's operations. See Note 5 to the Financial Statements and Item 1. "Business – Regulatory and Environmental Matters" of the Form 10-K for a discussion of these matters. Compliance with such laws, regulations and judicial and administrative interpretations, and related litigation have increased the cost of logging operations and at times have delayed or reduced harvest. The Company has also been adversely affected by a lack of available logs as a result of a severely diminished supply of available THPs. Prior to the consummation of the Headwaters Agreement on March 1, 1999, the reduced number of approved THPs was attributable to several factors, including a significantly reduced level of THPs submitted by the Company to the CDF during the second half of 1998 and during the first two months of 1999. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Trends" of the Form 10-K for a discussion of other factors which affected THP submissions and approvals during the above time period.

With the consummation of the Headwaters Agreement, Pacific Lumber has completed its work in connection with preparation of the Environmental Plans; however, significant additional work continues to be required in connection with their implementation. As a result of the implementation process, 1999 was a transition period for the Company with respect to the filing and approval of its THPs. The transition period has continued into 2000 and is expected to continue into 2001. Although the rate of submissions and approvals of THPs during the nine months ended September 30, 2000, is higher than that for 1999, monthly submissions and approvals continue to be slower than the Company's expectations and slower than the Company had experienced prior to 1998, principally because government agencies have failed to approve THPs in a timely manner. Nevertheless, the Company anticipates that after a transition period, the implementation of the Environmental Plans will streamline the process of preparing THPs and potentially shorten the time to obtain approval of THPs.

There can be no assurance that the Company will not continue to experience difficulties in receiving approvals of its THPs similar to those it has been experiencing. Furthermore, there can be no assurance that certain pending legal, regulatory and environmental matters or future governmental regulations, legislation or judicial or administrative decisions, or adverse weather conditions, would not have a material adverse effect on the Company's financial position, results of operations or liquidity. See Part II. Item 1. "Legal Proceedings" and Note 5 to the Financial Statements for further information regarding regulatory and legal proceedings affecting the Company.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Item 3 of the Form 10-K for information concerning material legal proceedings with respect to the Company. The following material developments have occurred with respect to such legal proceedings subsequent to the filing of the Form 10-K.

Timber Harvesting Litigation

On March 10, 2000, the *EPIC/THP 97-520 lawsuit* was filed in the Superior Court of Humboldt County. Plaintiffs allege, among other things, that the CDF violated the Forest Practices Act and the California Public Resources Code by approving an amendment to THP 97-520 (which covers approximately 700 acres of timberlands adjoining the Headwaters Timberlands) as a “minor” amendment. The plaintiffs seek an order requiring the CDF to withdraw its approval of the minor amendment to THP 97-520, and enjoining Pacific Lumber from harvesting under THP 97-520. In July 2000, the Court issued a preliminary injunction enjoining Pacific Lumber from harvesting under THP 97-520. The *EPIC/THP 97-520 lawsuit* has been set for trial on March 5, 2001. On October 19, 2000, the CDF accepted for filing a “major” amendment of THP 97-520 which allows for winter operations and restates the changes in the minor amendment. The Company believes that if the CDF approves the plan as submitted, it should be able to obtain relief from the injunction and begin harvesting. Therefore, although it is impossible for the Company to assess the potential impact of this matter in the short term, it believes that the matter will not in the long term have a material adverse effect on its consolidated financial position, results of operations or liquidity.

With respect to the *Rollins lawsuit* described in the Form 10-K, in April and June 2000, the Court dismissed five of the plaintiffs’ ten causes of action, including their allegations that the defendants had violated the California business and professions code and dismissed the plaintiffs’ claim for punitive damages. On August 30, 2000, the judge presiding over this matter was disqualified.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:

*27 Financial Data Schedule for the nine months ended September 30, 2000

* Included with this filing.

b. Reports on Form 8-K:

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, who has signed this report on behalf of the Registrant and as the principal financial and accounting officer of the Registrant.

SCOTIA PACIFIC COMPANY LLC

Date: November 9, 2000

By: GARY L. CLARK
Gary L. Clark
Vice President – Finance and Administration
(Principal Financial and Accounting Officer)

Glossary of Defined Terms

CDF: California Department of Forestry and Fire Protection

CEQA: California Environmental Quality Act

CESA: California Endangered Species Act

Company: Scotia Pacific Company LLC, a wholly owned subsidiary of Pacific Lumber

Company Timber: The timber located on the Company's timberlands which is not subject to harvesting rights by Pacific Lumber

Environmental Plans: The HCP and the SYP

EPA: Environmental Protection Agency

EPIC – SYP/Permits lawsuit: An action entitled *Environmental Protection Information Association, Sierra Club v. California Department of Forestry and Fire Protection, California Department of Fish and Game, The Pacific Lumber Company, Salmon Creek Corporation, et al.* filed March 31, 1999, in the Superior Court of Sacramento County (No. 99CS00639) and transferred on July 13, 1999 to the Superior Court of Humboldt County (No. CV-990445)

EPIC/THP 97-520 lawsuit: A lawsuit entitled *Environmental Protection Information Center, Sierra Club v. California Department of Forestry and Fire Protection, Does I-X, Scotia Pacific Holding Company, Pacific Lumber Company and Does XI-XX (THP 520)* (No. CV-000170) filed on March 10, 2000 in the Superior Court of Humboldt County

ESA: The federal Endangered Species Act

Forest Practice Act: The California Forest Practice Act

Form 10-K: The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 1999

Harvest Value Schedule: A schedule setting forth the SBE Prices published twice a year by the California Board of Equalization applicable to the timber harvested during the period covered by the schedule for purposes of computing timber yield taxes

HCP: The habitat conservation plan covering multiple species approved on March 1, 1999 in connection with the consummation of the Headwaters Agreement

Headwaters Agreement: The September 28, 1996 agreement between Pacific Lumber, Scotia LLC, Salmon Creek, the United States and California which provided the framework for the acquisition by the United States and California of the Headwaters Timberlands

Headwaters Timberlands: Approximately 5,600 acres of Pacific Lumber timberlands consisting of two forest groves commonly referred to as the Headwaters Forest and the Elk Head Springs Forest which were sold to the United States and California on March 1, 1999

Indenture: The indenture governing the Timber Notes

Line of Credit: The agreement between a group of lenders and the Company pursuant to which the Company may borrow in order to pay interest on the Timber Notes

Master Purchase Agreement: The agreement entered into between Pacific Lumber and the Company that governs all purchases of logs by Pacific Lumber from the Company

MAXXAM: MAXXAM Inc.

Mbfe: A concept used in structuring the Timber Notes; under this concept one thousand board feet, net Scribner scale, of residual old growth redwood timber equates to one Mbfe

MGHI: MAXXAM Group Holdings Inc., a wholly owned subsidiary of MAXXAM

MGI: MAXXAM Group Inc., a wholly owned subsidiary of MGHI

Pacific Lumber: The Pacific Lumber Company, a wholly owned subsidiary of MGI

Permits: The incidental take permits issued by the United States and California pursuant to the HCP

Prefunding Account: Restricted cash held in an account by the trustee under the Indenture to enable the Company to acquire timberlands

Rollins lawsuit: An action entitled *Jennie Rollins, et al. v. Charles Hurwitz, John Campbell, Pacific Lumber, MAXXAM Group Holdings Inc., Scotia Pacific Holding Company, MAXXAM Group Inc., MAXXAM Inc., Barnum Timber Company* (No. 9700400) filed on December 2, 1997 in the Superior Court of Humboldt County

Salmon Creek: Salmon Creek LLC, a wholly owned subsidiary of Pacific Lumber

SAR Account: Funds held in a reserve account to support principal payments on the Timber Notes

SBE Price: The applicable stumpage price for a particular species and category of log, as set forth in the most recent Harvest Value Schedule published by the California State Board of Equalization at six month intervals for the purpose of computing yield taxes imposed on the harvesting of timber

Scheduled Amortization: The amount of principal which the Company must pay through each Timber Note payment date in order to avoid prepayment or deficiency premiums

Services Agreement: An agreement whereby Pacific Lumber is to provide operational, management and related services with respect to the Company's timberlands and for which Pacific Lumber is paid a fee

SYP: The sustained yield plan approved on March 1, 1999 in connection with the consummation of the Headwaters Agreement

THP: Timber harvesting plan required to be filed with and approved by the CDF prior to the harvesting of timber

Timber Notes: The Company's \$867.2 million original aggregate principal amount of 6.55% Series B Class A-1 Timber Collateralized Notes, 7.11% Series B Class A-2 Timber Collateralized Notes and 7.71% Series B Class A-3 Timber Collateralized Notes due July 20, 2028

TMDLs: Total maximum daily load limits

USWA lawsuit: An action entitled *United Steelworkers of America, AFL-CIO, CLC, and Donald Kegley v. California Department of Forestry and Fire Protection, The Pacific Lumber Company, Scotia Pacific Company LLC and Salmon Creek Corporation* filed on March 31, 1999, in the Superior Court of Sacramento County (No. 99CS00626) and transferred on July 13, 1999 to the Superior Court of Humboldt County (No. CV-990452)

Wrigley lawsuit: An action entitled *Kristi Wrigley, et al. v. Charles Hurwitz, John Campbell, Pacific Lumber, MAXXAM Group Holdings Inc., Scotia Pacific Holding Company, MAXXAM Group Inc., MAXXAM Inc., Scotia Pacific Company LLC and Federated Development Company* (No. 9700399) filed on December 2, 1997 in the Superior Court of Humboldt County