UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001 **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**

Securities registered pursuant to Section 12(b) of the Act:

None.

Securities registered pursuant to Section 12(g) of the Act:

None.

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 (I)(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.

DOCUMENTS INCORPORATED BY REFERENCE:

Not applicable.

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ITEM 1. BUSINESS

General

Scotia Pacific Company LLC (the **"Company"**), a special purpose Delaware limited liability company wholly owned by The Pacific Lumber Company (**"Pacific Lumber"**), was organized by Pacific Lumber in May 1998 to facilitate the sale of $160.7 million of the Company's 6.55% Series B Class A-1 Timber Collateralized Notes due 2028, (the **"Class A-1 Notes"**), $243.2 million of the Company's 7.11% Series B Class A-2 Timber Collateralized Notes due 2028 (the **"Class A-2 Notes"**) and $463.3 million of the Company's 7.71% Series B Class A-3 Timber Collateralized Notes due 2028 (the **"Class A-3 Notes,"** together with the Class A-1 Timber Notes and the Class A-2 Timber Notes, the **"Timber Notes"**). The Indenture governing the Timber Notes is referred to herein as the **" Indenture."** Pacific Lumber is a wholly owned subsidiary of MAXXAM Group Inc. (**"MGI"**), and Pacific Lumber also wholly owns Salmon Creek LLC (**"Salmon Creek"**). MGI is a wholly owned subsidiary of MAXXAM Group Holdings Inc. (**"MGHI"**), which in turn is a wholly owned subsidiary of MAXXAM Inc. (**"MAXXAM"**). As used herein, the terms "MGHI," "MGI," "Pacific Lumber," or "MAXXAM" refer to the respective companies and their subsidiaries, unless otherwise noted or the context indicates otherwise.

This Annual Report on Form 10-K 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 (see Item 1. "Business—Harvesting Practices" and "—Regulatory and Environmental Factors," Item 3. "Legal Proceedings" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Background," "—Results of Operations" and "—Financial Condition and Investing and Financing Activities"). 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 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 Report identifies other factors that could cause such differences between such forward-looking statements and actual results. 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.

Timber and Timberlands

The Company owns, and the obligations of the Company under the Timber Notes are secured by, (i) approximately 205,000 acres of timberlands, (ii) the timber and related harvesting rights (the **"Company Timber Rights"**) with respect to an additional approximately 12,200 acres of timberlands that are owned by Pacific Lumber, Salmon Creek and an unaffiliated third party, (iii) approximately 400 acres of timberlands with respect to which Pacific Lumber owns the Timber Rights (the **"Pacific Lumber Timber Rights"**), (iv) certain computer hardware and software, including a geographic information system (**"GIS"**) containing information on numerous aspects of the Company's timberlands (subject to certain rights of concurrent use by Pacific Lumber) and (v) certain other assets. Substantially all of the Company's assets serve as security for the Timber Notes. The timberlands owned by the Company (including the timberlands which are subject to the Pacific Lumber Timber Rights) and the timberlands subject to the Company Timber Rights are hereinafter collectively referred to as the **"Company Timberlands."** The timber located on the Company Timberlands which is not subject to the Pacific Lumber Timber Rights is hereinafter referred to as the **"Company Timber."**

In March 1999, Pacific Lumber, the Company and Salmon Creek (collectively, the **"Palco Companies")** consummated the Headwaters Agreement (the **"Headwaters Agreement"**) with the United States and California. Pursuant to the agreement, approximately 5,600 acres of timberlands owned by the Palco Companies known as the Headwaters Forest and the Elk Head Springs Forest (the **"Headwaters Timberlands"**) were transferred to the United States. In exchange, Salmon Creek was paid $299.9 million, the Company was paid $150,000 and approximately 7,700 acres of timberlands known as the Elk River Timberlands (the **"Elk River Timberlands"**) were transferred to Pacific Lumber and subsequently transferred to the Company. In addition, habitat conservation and sustained yield plans (the **"Environmental Plans"**) were approved covering the Company's timberlands and California agreed to purchase a portion of Pacific Lumber's Grizzly Creek grove as well as all of the Company's Owl Creek grove. In December 2000, California purchased the Owl Creek grove for $67.0 million in cash, and on November 15, 2001, purchased a portion of the Grizzly Creek grove for $19.8 million in cash. Salmon Creek placed $169.0 million of the proceeds from the sale of the Headwaters Timberlands into a Scheduled Amortization Reserve Account (**"SAR Account"**) in order to support principal payments on the Timber Notes. See "—Regulatory and Environmental Factors" below and Notes 2 and 5 to the Financial Statements.

Timber generally is categorized by species and the age of a tree when it is harvested. **"Old growth"** trees are often defined as trees which have been growing for approximately 200 years or longer, and **"young growth"** trees are those which have been growing for less than 200 years. The forest products industry grades lumber into various classifications according to quality. The two broad categories into which all grades fall based on the absence or presence of knots are called "upper" and "common" grades, respectively. Old growth trees have a higher percentage of upper grade lumber than young growth trees.

The Company estimates that the amount of Company Timber consists of approximately 3.1 million Mbfe (as described below) of timber by volume, and is comprised of primarily young growth and old growth redwood and Douglas-fir timber. In addition, substantial quantities of sub-merchantable trees exist on the Company Timberlands which are not yet mature and have not been included in the inventory of the Company Timber. The estimates of the volume of timber comprising the Company Timber are based on a timber cruise performed in 1986 of all of Pacific Lumber's properties at that time, as adjusted to reflect acquisitions, dispositions, and actual harvest levels since the cruise and estimated growth rates of the Company Timber. A similar timber cruise is currently underway, but it is not expected to be finalized until the end of 2002.

Under the Mbfe concept, one thousand board feet, net Scribner scale, of old growth redwood timber equals 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 equal to a fraction of an Mbfe. This fraction was generally determined by dividing the June 1998 SBE Price applicable to such species and category by the June 1998 SBE Price applicable to old growth redwood. **"SBE Price"** is the applicable stumpage price for each species of timber and category thereof pursuant to a schedule published periodically by the California State Board of Equalization. See "—Operation of Company Timberlands" and "—Harvesting Practices" below.

Legal challenges have severely restricted the ability to harvest the virgin old growth timber on the Company's property, and to a lesser extent, residual old growth timber. In addition, the ability to harvest the Company's old growth timber has also been and is expected to continue to be subject to restrictions under federal and state environmental laws, and also be subject to the provisions of the Environmental Plans. See "—Regulatory and Environmental Factors" below.

Redwood lumber is a premium, high value-added product which has different supply and demand characteristics from the general lumber market. Redwood is known for its natural beauty, superior ability to retain paints and finishes, dimensional stability and its innate resistance to decay, insects and chemicals. As a result, redwood lumber is generally not used for commodity applications such as structural frames for construction, but is used instead for specialty applications such as exterior siding, trim and fascia for both residential and commercial construction, outdoor furniture, decks, planters and retaining walls. Redwood also has a variety of industrial applications because of its resistance to chemicals and because it does not impart any taste or odor to liquids or solids. Redwood prices have exhibited stability compared to most other softwood timber types, and redwood lumber has historically commanded a substantial price premium to other softwood timber types. Redwood is grown commercially only in North America in a region that extends for approximately 375 miles along the coast of the Pacific Northwest. The combination of excellent soil conditions and climate makes this region one of the most productive timber regions in North America.

Douglas-fir is used primarily for new construction and some decorative purposes and is widely recognized for its strength, hard surface and attractive appearance. Douglas-fir is grown commercially along the west coast of North America and in Chile and New Zealand.

Pacific Lumber engages in extensive efforts to supplement the natural regeneration of the Company Timber and increase the amount of timber on the Company Timberlands. The Company is required to comply with California forestry regulations regarding reforestation, which generally require that an area be reforested to specified standards within an established period of time. Pursuant to the Services Agreement described below (see "—Operation of Company Timberlands"), Pacific Lumber conducts regeneration activities on the Company Timberlands for the Company. Regeneration of redwood timber generally is accomplished through the natural growth of new redwood sprouts from the stump remaining after a redwood tree is harvested. Such new redwood sprouts grow quickly, thriving on existing mature root systems. In addition, Pacific Lumber supplements natural redwood regeneration by planting redwood seedlings. Douglas-fir timber is regenerated almost entirely by planting seedlings. During 2001, Pacific Lumber planted an estimated 1,006,000 redwood and Douglas-fir seedlings on the Company Timberlands.

California law requires timber owners such as the Company to demonstrate that their operations will not decrease the sustainable productivity of their timberlands. A timber company may comply with this requirement by submitting a sustained yield plan to the California Department of Forestry and Fire Protection (**"CDF"**) for review and approval. A sustained yield plan contains a timber growth and yield assessment, which evaluates and calculates the amount of timber and long-term production outlook for a company's timberlands, a fish and wildlife assessment, which addresses the condition and management of fisheries and wildlife in the area, and a watershed assessment, which addresses the protection of aquatic resources. The relevant regulations require determination of a long-term sustained yield (**"LTSY"**) harvest level, which is the average annual harvest level that the management area is capable of sustaining in the last decade of a 100-year planning horizon. The LTSY is determined based upon timber inventory, projected growth and harvesting methodologies, as well as soil, water, air, wildlife and other relevant considerations. A sustained yield plan must demonstrate that the average annual harvest over any rolling ten-year period within the planning horizon does not exceed the LTSY.

The Company is also subject to federal and state laws providing for the protection and conservation of wildlife species which have been designated as endangered or threatened, certain of which are found on the Company Timberlands. These laws generally prohibit certain adverse impacts on such species (referred to as a **"take"**), except for incidental takes which do not jeopardize the continued existence of the affected species and which are made in accordance with an approved habitat conservation plan and related incidental take permit. A habitat conservation plan analyzes the impact of the incidental take and specifies measures to monitor, minimize and mitigate such impact. As part of the Headwaters Agreement, the Company and Pacific Lumber reached agreement with various federal and state regulatory agencies with respect to the Environmental Plans, consisting of a sustained yield plan (the **"SYP"**) and a multi-species habitat conservation plan (the **"HCP"**). See "—Regulatory and Environmental Factors" below.

Operation of Company Timberlands

The Company's foresters, wildlife and fisheries biologists, geologists and other personnel are responsible for providing a number of forest stewardship techniques, including protecting the Company Timber from forest fires, erosion, insects and other damage, overseeing reforestation activities and monitoring environmental and regulatory compliance. The Company's personnel are also responsible for preparing timber harvesting plans (**"THPs"**) and updating the GIS that contains information on numerous aspects of the Company Timberlands, such as timber type, tree class, wildlife data, roads, rivers and streams. See "—Harvesting Practices" below for a description of the Company's GIS updating process and the THP preparation process.

The Company is a party with Pacific Lumber to a master purchase agreement (the **"Master Purchase Agreement"**) which governs the sale to Pacific Lumber of logs harvested from the Company Timberlands. As Pacific Lumber purchases logs from the Company pursuant to the Master Purchase Agreement, Pacific Lumber is responsible, at its own expense, for harvesting and removing the standing Company Timber covered by approved THPs, with the purchase price being based upon "stumpage prices." Title to, and the obligation to pay for, harvested logs passes to Pacific Lumber once the logs are measured. The Master Purchase Agreement generally contemplates that all sales of logs by the Company to Pacific Lumber will be at a price which equals or exceeds the applicable SBE Price, which is the stumpage price for each species and category of timber as set forth in the most recent **"Harvest Value Schedule"** (or any successor publication) published by the California State Board of Equalization (or any successor agency) applicable to the timber sold during the applicable period. Harvest Value Schedules are published twice a year for purposes of computing a yield tax imposed on timber harvested between January 1 through June 30 and July 1 through December 31. SBE Prices are not necessarily representative of actual prices that would be realized from unrelated parties at subsequent dates.

After obtaining an approved THP, the Company offers for sale the logs to be harvested pursuant to such THP. While the Company may sell logs to third parties, it derives substantially all of its revenue from the sale of logs to Pacific Lumber pursuant to the Master Purchase Agreement. Each sale of logs by the Company to Pacific Lumber is made pursuant to a separate log purchase agreement that relates to the Company Timber covered by an approved THP and incorporates the provisions of the Master Purchase Agreement. Each such log purchase agreement provides for the sale to Pacific Lumber of the logs harvested from the Company Timber covered by such THP and generally constitutes an exclusive agreement with respect to the timber covered thereby, subject to certain limited exceptions. However, the timing and amount of log purchases by Pacific Lumber is affected by factors outside the control of the Company, including regulatory and environmental factors, the financial condition of Pacific Lumber, and the supply and demand for lumber products (which, in turn, will be influenced by demand in the housing, construction and remodeling industries).

The Company continues to rely on Pacific Lumber to provide operational, management and related services not performed by its own employees with respect to the Company Timberlands pursuant to a services agreement (the **"Services Agreement"**). The services include the furnishing of all equipment, personnel and expertise not within the Company's possession and reasonably necessary for the operation and maintenance of the Company Timberlands and the Company Timber as well as timber management techniques designed to supplement the natural regeneration of, and increase the amount of, Company Timber. Pacific Lumber is required to provide all services under the Services Agreement in a manner consistent in all material respects with prudent business practices which are consistent with then current applicable industry standards and are in compliance in all material respects with all applicable timber laws. The Company pays Pacific Lumber a services fee (**"Services Fee"**) which is adjusted annually based on a specified government index relating to wood products and reimburses Pacific Lumber for the cost of constructing, rehabilitating and maintaining roads, and performing reforestation services, on the Company Timberlands. Certain of such reimbursable expenses vary in relation to the amount of timber to be harvested in any given period.

The Company provides further services to Pacific Lumber pursuant to an additional services agreement (the **"Additional Services Agreement"**). These services include (i) assisting Pacific Lumber to operate, maintain and harvest its own timber properties, (ii) updating and providing access to the GIS with respect to information concerning Pacific Lumber's own timber properties and (iii) assisting Pacific Lumber with its statutory and regulatory compliance. Pacific Lumber pays the Company a fee for such services equal to the actual cost of providing such services, as determined in accordance with generally accepted accounting principles.

The Company, Pacific Lumber and Salmon Creek are also parties to a reciprocal rights agreement (the **"Reciprocal Rights Agreement"**) whereby, among other things, the parties have granted to each other certain reciprocal rights of egress and ingress through their respective properties in connection with the operation and maintenance of such properties and their respective businesses. In addition, Pacific Lumber and the Company are parties to an environmental indemnification agreement (the **"Environmental Indemnification Agreement"**), pursuant to which Pacific Lumber has agreed to indemnify the Company from and against certain present and future liabilities arising with respect to hazardous materials, hazardous materials contamination or disposal sites, or under environmental laws with respect to the Company Timberlands. In particular, Pacific Lumber is liable with respect to any contamination which occurred on the Company Timberlands prior to the date of their transfer to the Company.

Harvesting Practices

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1. "Business—General" in this section for cautionary information with respect to such forward-looking statements.

The GIS contains information regarding numerous aspects of the Company Timberlands, including timber type, tree class, wildlife data, roads, rivers and streams. Subject to the terms of the Services Agreement, Pacific Lumber, to the extent necessary, provides the Company with personnel and technical assistance to assist the Company in updating, upgrading and improving the GIS and the other computer systems owned by the Company. By carefully monitoring and updating this data base and conducting field studies, the Company's foresters, with the assistance (if required) of Pacific Lumber pursuant to the Services Agreement, are better able to develop detailed THPs addressing the various regulatory requirements. The Company also utilizes a Global Positioning System (**"GPS"**) which allows precise location of geographic features through satellite positioning. Use of the GPS greatly enhances the quality and efficiency of the GIS data.

The ability of the Company to harvest timber will depend, in part, upon its ability to obtain regulatory approval of THPs. Prior to harvesting timber in California, companies are required to obtain the CDF's approval of a detailed THP for the area to be harvested. A THP must be submitted by a registered professional forester and must include information regarding the method of proposed timber operations for a specified area, whether the operations will have any adverse impact on the environment and, if so, the mitigation measures to be used to reduce any such impact. The CDF's evaluation of THPs incorporates review and analysis of such THPs by several California and federal agencies and public comments received with respect to such THPs. An approved THP is applicable to specific acreage and specifies the harvesting method and other conditions relating to the harvesting of the timber covered by such THP. The number of the Company's approved THPs and the amount of timber covered by such THPs varies significantly from time to time, depending upon the timing of agency review and other factors. Timber covered by an approved THP is typically harvested within a one year period from the date harvesting first begins. The Indenture requires the Company to use its best efforts (consistent with prudent business practices) to maintain a number of pending THPs which, together with THPs previously approved, would cover rights to harvest a quantity of Company Timber adequate to pay interest and principal amortization based on the Minimum Principal Amortization Schedule for the Timber Notes for the next succeeding twelve month period. Despite its best efforts, the Company has experienced an absence of a sufficient number of THPs available for harvest to enable it to conduct its operations at levels it had experienced prior to 1998 or at levels which meet the Company's expectations, although the Company has recently experienced improvements. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Background" and "—Results of Operations—Log Sales to Pacific Lumber." However, the Company believes that the Environmental Plans should in the long-term expedite the preparation and facilitate approval of its THPs.

The Company employs a variety of well-accepted methods of selecting trees for harvest designed to achieve optimal regeneration. These methods, referred to as "silvicultural systems" in the forestry profession, range from very light thinnings aimed at enhancing the growth rate of retained trees to clear cutting which results in the harvest of all trees in an area and replacement with a new forest stand. In between are a number of varying levels of partial harvests which can be employed.

Employees

As of March 1, 2002, the Company employed 96 persons, 89 of whom were registered professional foresters, geologists, wildlife and fisheries biologists or otherwise involved in the management of the Company Timberlands. None of the Company's employees are covered by a collective bargaining agreement.

Principal Executive Offices

The principal executive offices of the Company are located at 125 Main Street, 2nd Floor, P.O. Box 712, Scotia, California 95565. The telephone number of the Company is (707) 764-2330.

Regulatory and Environmental Factors

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1. "Business—General" in this section for cautionary information with respect to such forward-looking statements.

General

The Company's business is subject to the Environmental Plans and a variety of California and federal laws and regulations dealing with timber harvesting, threatened and endangered species and habitat for such species, and air and water quality. Compliance with such laws and regulations also plays a significant role in Pacific Lumber's business. The California Forest Practice Act (the **"Forest Practice Act"**) and related regulations adopted by the California Board of Forestry and Fire Protection (the **"BOF"**) set forth detailed requirements for the conduct of timber harvesting operations in California. These requirements include the obligation of timber companies submitting THPs to obtain regulatory approval of detailed THPs containing information with respect to areas proposed to be harvested (see "—Harvesting Practices" above). California law also requires large timber companies submitting THPs to demonstrate that their proposed timber operations will not decrease the sustainable productivity of their timberlands (see "—Timber and Timberlands" above). The federal Endangered Species Act (the **"ESA"**) and California Endangered Species Act (the **"CESA"**) provide in general for the protection and conservation of specifically listed wildlife and plants which have been declared to be endangered or threatened. These laws generally prohibit the take of certain species, except for incidental takes pursuant to otherwise lawful activities which do not jeopardize the continued existence of the affected species and which are made in accordance with an approved habitat conservation plan and related incidental take permits. A habitat conservation plan, among other things, analyzes the potential impact of the incidental take of species and specifies measures to monitor, minimize and mitigate such impact. The operations of the Company are also subject to the California Environmental Quality Act (the **"CEQA"**), which provides for protection of the state's air and water quality and wildlife, and the California Water Quality Act and federal Clean Water Act (**"CWA"**), which require that Pacific Lumber conduct its operations so as to reasonably protect the water quality of nearby rivers and streams. Compliance with such laws, regulations and judicial and administrative interpretations, together with other regulatory and environmental matters, have resulted in restrictions on the scope and timing of the Company's timber operations and increased operational costs. They have also engendered litigation and other challenges to the Company's operations.

The Environmental Plans

The Environmental Plans, consisting of the HCP and the SYP, were approved by the applicable federal and state regulatory agencies upon the consummation of the Headwaters Agreement. In connection with approval of the Environmental Plans, incidental take permits (**"Permits"**) were issued with respect to certain threatened, endangered and other species found on the Company Timberlands. The Permits cover the 50-year term of the HCP and allow incidental takes of 17 different species covered by the HCP, including four species found on the Company Timberlands that had previously been listed as endangered or threatened under the ESA and/or the CESA. The agreements which implement the Environmental Plans also provide for various remedies (including the issuance of written stop orders and liquidated damages) in the event of a breach by the Company of these agreements or the Environmental Plans.

Under the Environmental Plans, harvesting activities are prohibited or restricted on certain areas of the Company Timberlands. For a 50-year period, harvesting activities are severely restricted in several areas (consisting of substantial quantities of old growth redwood and Douglas-fir timber) to serve as habitat conservation areas for the marbled murrelet, a coastal seabird, and certain other species. Harvesting in certain other areas of the Company Timberlands is currently prohibited while these areas are evaluated for the potential risk of landslide and the degree to which harvesting activities will be prohibited or restricted in the future. Further, additional areas alongside streamsides have been designated as buffers, in which harvesting is prohibited or restricted, to protect aquatic and riparian habitat. Streamside buffers and restrictions related to potential landslide prone acres may be adjusted up or down, subject to certain minimum and maximum buffers, based upon an ongoing watershed analysis process, which the HCP requires be completed within five years of its effective date. The first analysis by the Company of a watershed, Freshwater, was released in June 2001. This analysis was used by the Company to develop proposed harvesting prescriptions. Because the Company and the government agencies were unable to reach agreement on the appropriate prescriptions, the matter is being reviewed by an independent panel of scientists. Analyses for two additional watersheds are currently undergoing agency review. The Company and the agencies are working to streamline the watershed analysis process prior to beginning up to three more watershed studies in 2002.

The HCP also imposes certain restrictions on the use of roads on the timberlands covered by the HCP during several months of the year and during periods of wet weather. However, the Company anticipates that some harvesting will be able to be conducted during these months. The HCP also requires that 75 miles of roads be stormproofed on an annual basis (within a specified six month period) and that certain other roads must be built or repaired (within a specified five month period).

The HCP contains an adaptive management provision, which various regulatory agencies have clarified will be implemented on a timely and efficient basis, and in a manner which will be both biologically and economically sound. This provision allows the Company and Pacific Lumber to propose changes to any of the HCP prescriptions based on, among other things, certain economic considerations. The regulatory agencies have also clarified that in applying this adaptive management provision, to the extent the changes proposed do not result in the jeopardy of a particular species, the regulatory agencies will consider the practicality of the suggested changes, including the cost and economic feasibility and viability. Pacific Lumber and the agencies are currently discussing proposed adaptive management changes related to roads, streamside buffers, wildlife and rare plants.

Water Quality

Under the CWA, the Environmental Protection Agency (the **"EPA"**) is required to establish total maximum daily load limits (**"TMDLs"**) in water courses that have been declared to be "water quality impaired." The EPA and the North Coast Regional Water Quality Control Board (the **"North Coast Water Board"**) are in the process of establishing TMDLs for 17 northern California rivers and certain of their tributaries, including certain water courses that flow within the Company Timberlands. The Company expects this process to continue into 2010. In December 1999, the EPA issued a 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, a September 2000 report by the staff of the North Coast Water Board proposed various actions, including restrictions on harvesting beyond those required under the HCP. Establishment of the final TMDL requirements applicable to the Company 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.

Impact of Future Legislation

Laws, regulations and related judicial decisions and administrative interpretations dealing with the Company's business are subject to change and new laws and regulations are frequently introduced concerning the California timber industry. From time to time, bills are introduced in the California legislature and the U.S. Congress which relate to the business of the Company, including the protection and acquisition of old growth and other timberlands, threatened and endangered species, environmental protection, air and water quality and the restriction, regulation and administration of timber harvesting practices. In addition to existing and possible new or modified statutory enactments, regulatory requirements and administrative and legal actions, the California timber industry remains subject to potential California or local ballot initiatives and evolving federal and California case law which could affect timber harvesting practices. It is not possible to assess the effect of such future legislative, judicial and administrative events on the Company or its business.

Timber Operations

In order to conduct logging operations, stormproofing and certain other activities, a company must obtain from the CDF a Timber Operator's License. In December 2001, Pacific Lumber was granted a Timber Operator's License for 2002. Pacific Lumber had historically conducted logging operations on the Company Timberlands with its own staff of logging personnel as well as through contract loggers. However, effective April 1, 2002, Pacific Lumber has terminated its staff of logging personnel and intends to rely exclusively on third party contract loggers to conduct these activities.

ITEM 2. PROPERTIES

A description of the Company's properties is included under Item 1. above.

ITEM 3. LEGAL PROCEEDINGS

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1. "Business—General" for cautionary information with respect to such forward-looking statements.

Timber Harvesting Litigation

On December 2, 1997, a lawsuit 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, et al.* (No. 9700399) (the ***"Wrigley lawsuit"***) was filed in the Superior Court of Humboldt County. This action alleges, among other things, that defendants' logging practices have contributed to an increase in flooding and damage to domestic water systems in a portion of the Elk River watershed. Plaintiffs further allege that in order to have THPs approved in connection with these areas, the defendants submitted false information to the CDF in violation of California's business and professions code and the Racketeering Influence and Corrupt Practices Act. The Company believes that it has strong factual and legal defenses with respect to the *Wrigley lawsuit*; however, there can be no assurance that it will not have a material adverse effect on its financial position, results of operations or liquidity.

On March 31, 1999, 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, Scotia Pacific Company LLC, Salmon Creek Corporation, et al.* (No. 99CS00639) (the **"*EPIC-SYP /Permits lawsuit*"**) was filed alleging, among other things, that the CDF and the CDFG violated the CEQA and the CESA, and challenging, among other things, the validity and legality of the SYP and the Permits issued by California. This action is now pending in Humboldt County, California (No. CV-990445). The plaintiffs seek, among other things, injunctive relief to set aside the CDF's and the CDFG's decisions approving the SYP and the Permits issued by California. The Court recently denied the plaintiffs' motion for injunctive relief, and set a trial date of August 5, 2002. On March 31, 1999, 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* (No.

99CS00626) (the "***USWA lawsuit***") was also filed challenging the validity and legality of the SYP. This case is set for trial on June 10, 2002. The Company believes that appropriate procedures were followed throughout the public review and approval process concerning the Environmental Plans, 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.

On July 24, 2001, a lawsuit entitled *Environmental Protection Information Association v. Pacific Lumber, Scotia Pacific Company LLC* (No. CD1-2821) was filed in the U.S. District Court in the Northern District of California (the "***Bear Creek lawsuit***"). The lawsuit alleges that the Company and Pacific Lumber's harvesting and other activities under certain of its approved and proposed THPs will result in discharges of pollutants in violation of the CWA. The plaintiff asserts that the CWA requires the defendants to obtain a permit from the North Coast Water Board before beginning timber harvesting and road construction activities in the Bear Creek watershed, and seeks to enjoin these activities until such permit has been obtained. The plaintiff also seeks civil penalties of up to $27,000 per day for the defendant's alleged continued violation of the CWA. The Company believes that the requirements under the HCP are adequate to ensure that sediment and pollutants from its harvesting activities will not reach levels harmful to the environment. Furthermore, EPA regulations specifically provide that such activities are not subject to CWA permitting requirements. The Company continues to believe that it has strong legal defenses in this matter; however, there can be no assurance that this lawsuit will not have a material adverse effect on its financial condition, results of operations or liquidity.

Other Litigation

The Company is involved in other claims, lawsuits and proceedings, including certain pending or threatened actions seeking to prevent Pacific Lumber and the Company from conducting harvesting and certain other operations. While uncertainties are inherent in the final outcome of such matters and it is presently impossible to determine the actual costs that ultimately may be incurred or their effect on the Company, management believes that the resolution of such uncertainties and the incurrence of such costs should not have a material adverse effect on the Company's financial position, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Pacific Lumber holds a 100% member interest in the Company. Accordingly, there is no established public trading market for the Company's equity securities. The Company did not make any cash distributions in respect of such interest during 1999 or 2000. During 2001, $79.9 million in distributions were made to Pacific Lumber, including a $73.1 million distribution in connection with the sale of the Company's Owl Creek grove. In March 2002, a distribution of $29.4 million was made to Pacific Lumber. See Note 3 to the Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the Company's Financial Statements and the Notes thereto appearing in Item 8.

Background

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1. "Business—General" for cautionary information with respect to such forward-looking statements.

The Company is a single member Delaware limited liability company owned by Pacific Lumber and did not conduct any significant operations prior to the issuance of the Timber Notes in May 1998. Regulatory and environmental matters play a significant role in the Company's operations. See Item 1. "Business—Regulatory and Environmental Matters" and Note 7 to the Financial Statements for a discussion of these matters. Regulatory compliance and related litigation have caused delays in obtaining approvals of THPs and delays in harvesting on THPs once they are approved. This has resulted in a decline in harvest, an increase in the cost of logging operations, and lower net sales.

Since the consummation of the Headwaters Agreement in March 1999, there has been a significant amount of work required in connection with the implementation of the Environmental Plans, and this work is expected to continue for several more years. During the implementation period, government agencies had until recently failed to approve THPs in a timely manner. The rate of approvals of THPs during 2001 improved over that for the prior year, and further improvements have been experienced thus far in 2002. However, it continues to be below levels which meet the Company's expectations. Nevertheless, the Company anticipates that once the Environmental Plans are fully implemented, the process of preparing THPs will become more streamlined, and the time to obtain approval of THPs will potentially be shortened.

While the Company has experienced recent improvements in the THP approval process, there can be no assurance that the Company will not in the future have difficulties in receiving approvals of its THPs similar to those experienced in the past. 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 Item 3. "Legal Proceedings" and Note 7 to the Financial Statements for further information regarding regulatory and legal proceedings affecting the Company.

Results of Operations

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1. "Business—General" for cautionary information with respect to such forward-looking statements.

General

Mbfe Concept. 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 an 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.

Master Purchase Agreement Governing Log Sales to Pacific Lumber. 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 the prices (using 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 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 of Company Timber 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 which began March 1, 1999. See Note 7 to the Financial Statements.

Log Sales to Pacific Lumber

Net sales from logs were $99.0 million and $128.0 million for the years ended December 31, 2001 and 2000, respectively. Log deliveries for such periods were 117,300 Mbfe and 109,400 Mbfe, respectively. The decrease in net sales between periods was due to a substantial decrease in SBE prices for redwood logs. SBE prices published for the six months beginning July 1, 2001, reflected declines in the prices for redwood logs in the range of 35% to 40% from the previous six-month period. Although the Company had an increase in log volumes, the supply of approved THPs remains well below that available prior to 1998 and that required to meet the Company's operating objectives.

The Company's net sales from logs increased from $51.4 million for the year ended December 31, 1999 to $128.0 million for the year ended December 31, 2000. Log deliveries for such periods were 69,100 Mbfe and 109,400 Mbfe, respectively. This increase in net sales was due to a substantial increase in the SBE prices for redwood logs as well as the increase in log delivery volumes. The increase in log volumes was due largely to a rise in the Company's available-to-log THPs; however, the supply of approved THPs remained well below that available prior to 1998 and that required to meet the Company's operating objectives.

Operating Income and Net Income

Operating income was $64.5 million and $93.1 million for the years ended December 31, 2001 and 2000, respectively. The decrease in operating income is principally due to the decrease in log sales discussed above. General and administrative costs decreased slightly principally as a result of lower yield taxes caused by the lower SBE prices as discussed above. Depletion and depreciation increased as a result of increased harvest levels.

In addition to the decrease in operating income discussed previously, net income decreased in 2001 because 2000 results included two significant gains: the $59.5 million gain on the sale of the Owl Creek grove in December 2000 as well as an extraordinary gain of $6.0 million on the reacquisition of Timber Notes (which are being held in the SAR Account).

Operating income was $93.1 million and $31.2 million for the years ended December 31, 2000 and 1999, respectively. The increase in operating income is principally due to the increase in log sales discussed above. This was offset by an increase in general and administrative expenses due to the addition of personnel, increased professional services for THP preparation and watershed analysis, higher road maintenance costs and additional yield taxes due to higher SBE prices and harvest volumes. Depletion increased as a result of increased harvest volumes. The Company had net income of $104.6 million for the year ended December 31, 2000 as compared to a net loss of $32.4 million for the year ended December 31, 1999. In addition to the increase in operating income discussed above, other income (expenses) had significant increases in 2000 due the sale of the Owl Creek grove noted above and increases in interest income from a full year's interest on funds held in the SAR account (which was funded in late November of 1999).

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 Item 1. "Business—General" and below for cautionary information with respect to such forward-looking statements.

Note 5 to the Financial Statements contains additional information concerning the Company's indebtedness and certain restrictive debt covenants.

The December 2000 sale of the Owl Creek grove generated proceeds of $67.0 million.

On November 18, 1999, $169.0 million of funds from the sale of the Headwaters Timberlands were contributed to the Company and set aside in the SAR Account. During the year ended December 31, 2000, $52.5 million in funds from the SAR Account were used to reacquire Timber Notes, representing $60.0 million in principal, as permitted under the Indenture. As of December 31, 2001, the fair value of cash, marketable securities and other investments held in the SAR Account, including the reacquired Timber Notes, was $154.7 million.

The Indenture contains various covenants which, among other things, limit the ability of the Company to incur additional indebtedness and liens, to engage in transactions with affiliates, to pay dividends and to make investments. Under the terms of the Indenture, the Company will generally have available cash for distribution to Pacific Lumber when the Company's cash flows from operations exceed the amounts required by the Indenture to be reserved for the payment of current debt service (including interest, principal and premiums) on the Timber Notes, capital expenditures, certain other operating expenses and replenishment of the SAR Account.

The Company has an agreement with a group of banks which allows it to borrow up to one year's interest on the Timber Notes (the **"Line of Credit"**). On June 1, 2001, this facility was extended for an additional year to July 12, 2002. At December 31, 2001, the Company could have borrowed a maximum of $60.9 million under the Line of Credit, and there were no borrowings outstanding under the Line of Credit. Annually, the Company will request that the Line of Credit be extended for a period of not less than 364 days. If not extended, the Company may draw upon the full amount available. The amount drawn would be repayable in 12 semiannual installments on each note payment date (after the payment of certain other items, including the Aggregate Minimum Principal Amortization Amount, as defined, then due), commencing approximately two and one-half years following the date of the draw.

Principal and interest on the Timber Notes are payable semi-annually on approximately January 20 and July 20. During the year ended December 31, 2001, the Company used $67.3 million set aside in the note payment account to pay the $57.4 million of interest due as well as $9.9 million of principal. The Company repaid an additional $4.3 million of principal on the Timber Notes using funds held in the SAR Account, resulting in total principal payments of $14.2 million, an amount equal to Scheduled Amortization.

On the note payment date in January 2002, the Company had $33.9 million set aside in the note payment account to pay the $28.4 million of interest due as well as $5.5 million of principal. The Company repaid an additional $6.1 million of principal on the Timber Notes using funds held in the SAR Account, resulting in a total principal payment of $11.6 million, an amount equal to Scheduled Amortization (as defined in the Indenture).

With respect to the note payment due in July 2002, the Company expects that it will require funds from the Line of Credit to pay a portion of the interest due, and that all of the funds used to pay the Scheduled Amortization amount will be provided from the SAR Account.

On March 5, 2002, the Company notified the trustee for the Timber Notes that the Company had met all of the requirements of the SAR Reduction Date, as defined in the Indenture. Accordingly, on March 20, 2002, the Company released $29.4 million from the SAR Account and distributed this amount to Pacific Lumber.

Pacific Lumber's financial condition will affect its ability to purchase logs from the Company and to meet its obligations under the Services Agreement. During 2001, comprehensive external and internal reviews were conducted of Pacific Lumber's business operations. These reviews were an effort to identify ways in which Pacific Lumber could operate on a more efficient and cost effective basis. Based upon the results of these reviews, Pacific Lumber has, among other things, indefinitely curtailed two of its four operating sawmills, eliminated certain of its operations, including its soil amendment and concrete block manufacturing operations, begun utilizing more efficient harvesting methods and adopted certain other cost saving measures. Most of these operational changes were implemented by Pacific Lumber during the last quarter of 2001, or during the first quarter of 2002. Pacific Lumber also terminated its internal logging operations as of April 1, 2002, and intends to rely on third party contract loggers to conduct these activities.

Pacific Lumber's 2001 cash flows from operations were adversely affected by operating inefficiencies, lower lumber prices, an inadequate supply of logs and a related slowdown in lumber production. The adverse impact on liquidity of its poor operating results was offset by $79.9 million in distributions made by the Company to Pacific Lumber (principally from the sale of the Owl Creek grove), $9.3 million in repayments on an intercompany loan by MGI, and $18.5 million of proceeds received from the sale of a portion of the Grizzly Creek grove. The $29.4 million release from the SAR Account discussed above will also improve Pacific Lumber's liquidity. However, Pacific Lumber may require funds available under Pacific Lumber's revolving credit agreement, additional 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 next year. 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.

The Company's capital expenditures, excluding timberland acquisitions, relate primarily to reforestation of timberlands and to construction and rehabilitation of logging roads. The Company's capital expenditures for 2001, 2000 and 1999, excluding contributions by Pacific Lumber and timberland acquisitions, were approximately $6.5 million, $7.0 million and $6.5 million, respectively. The Company's capital expenditures, excluding expenditures for timberlands, for the next several years are expected to be approximately $6 million to $7 million per year.

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 make distributions, 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 SBE Price, continuation of the recent improvements in the THP 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.

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations is based upon the Company's financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of this process forms the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The Company reevaluates its estimates and judgments on a regular, ongoing basis. Actual results may differ from these estimates under different assumptions and conditions.

The following accounting policies are considered critical in light of the potentially material impact that the estimates, judgments and uncertainties affecting the application of these policies might have on the Company's reported financial information.

Loss Contingencies

The Company is involved in various claims, lawsuits and other proceedings discussed in Note 7 to the financial statements. Such litigation involves uncertainty as to possible losses to the Company that will ultimately be realized when one or more future events occur or fail to occur. The Company accrues and charges to income estimated losses from contingencies when it is probable (at the balance sheet date) that an asset has been impaired or liability incurred and the amount of loss can be reasonably estimated. Differences between estimates recorded and actual amounts determined in subsequent periods are treated as changes in accounting estimates (i.e., they are reflected in the financial statements in the period in which they are determined to be losses, with no retroactive restatement).

The Company estimates the probability of losses on legal contingencies based on the advice of internal and external counsel, the outcomes from similar litigation, the status of lawsuits (including settlement initiatives), legislative developments, and other factors. Risks and uncertainties are inherent with respect to the ultimate outcome of litigation.

Depletion

Depletion of the Company's timber and timberlands is computed utilizing the units-of-production method based upon estimates of timber quantities. The depletion base is the total historical cost attributable to the Company's timberlands. Depletion for the period is determined by multiplying the depletion base by the ratio of harvested units for the period over the total expected recoverable units. The Company's total for expected recoverable units is reviewed on a periodic basis and revised, if necessary. Any adjustments are made prospectively (i.e., the remaining undepleted cost is expensed over the remaining recoverable units).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Managers and Member of
Scotia Pacific Company LLC:

We have audited the accompanying balance sheets of Scotia Pacific Company LLC (a Delaware limited liability company and a wholly owned subsidiary of The Pacific Lumber Company) as of December 31, 2001 and 2000, and the related statements of income and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scotia Pacific Company LLC as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

San Francisco, California
March 6, 2002

SCOTIA PACIFIC COMPANY LLC

BALANCE SHEET
(In millions of dollars)

	December 31, 2001	December 31, 2000
Assets		
Current assets:		
Cash, cash equivalents, and restricted cash	$ 37.8	$ 98.1
Marketable securities, restricted	17.1	16.3
Receivables from Pacific Lumber	3.8	11.2
Prepaid timber harvesting costs	7.9	5.7
Other current assets	0.6	0.5
Total current assets	67.2	131.8
Timber and timberlands, net of accumulated depletion of $261.6 and $251.8, respectively	247.9	255.0
Property and equipment, net of accumulated depreciation of $13.0 and $11.3, respectively	20.9	19.0
Deferred financing costs, net	16.4	17.8
Restricted cash, marketable securities and other investments	87.6	94.6
Other assets	6.5	7.4
	$ 446.5	$ 525.6
Liabilities and Member Deficit		
Current liabilities:		
Due to Pacific Lumber	$ 1.0	$ 0.3
Accrued interest	25.4	26.3
Other accrued liabilities	3.0	3.4
Current maturities of long-term debt, excluding $2.3 and $2.2, respectively, of repurchased Timber Notes held in the SAR Account	14.9	14.2
Total current liabilities	44.3	44.2
Long-term debt, less current maturities and excluding $55.4 and $57.7, respectively, of repurchased Timber Notes held in the SAR Account	754.5	769.4
Total liabilities	798.8	813.6
Contingencies (See Note 7)		
Member deficit	(352.3)	(288.0)
	$ 446.5	$ 525.6

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

SCOTIA PACIFIC COMPANY LLC

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

	Years Ended December 31,		
	2001	2000	1999
Log sales to Pacific Lumber	$ 99.0	$ 128.0	$ 51.4
Operating expenses:			
General and administrative	22.0	22.5	12.7
Depletion and depreciation and amortization	12.5	12.4	7.5
	34.5	34.9	20.2
Operating income	64.5	93.1	31.2
Other income (expense):			
Gains on sales of timberlands	1.2	59.5	0.2
Interest and other income	8.3	8.6	1.7
Interest expense	(58.9)	(62.6)	(65.5)
Income (loss) before extraordinary items	15.1	98.6	(32.4)
Extraordinary items:			
Gains on repurchases of debt	–	6.0	–
Net income (loss)	$ 15.1	$ 104.6	$ (32.4)

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

SCOTIA PACIFIC COMPANY LLC

STATEMENT OF CASH FLOWS
(In millions of dollars)

	Years Ended December 31,		
	2001	**2000**	**1999**
Cash flows from operating activities:			
Net income (loss)	$ 15.1	$ 104.6	$ (32.4)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Extraordinary gains on repurchases of debt	–	(6.0)	–
Gain on sale of timberlands	(1.2)	(59.5)	(0.2)
Depletion, depreciation and amortization	12.5	12.4	7.5
Amortization of deferred financing costs	1.4	1.4	1.5
Increase (decrease) in cash resulting from changes in:			
Receivables from Pacific Lumber	7.4	(6.7)	(1.6)
Prepaid timber harvesting costs	(2.2)	(1.4)	(2.1)
Due to Pacific Lumber	0.3	(0.2)	(0.2)
Accrued interest	(0.9)	(1.8)	(0.2)
Other accrued liabilities	(0.4)	0.7	1.3
Other	–	(0.2)	–
Net cash provided by (used for) operating activities	32.0	43.3	(26.4)
Cash flows from investing activities:			
Capital expenditures	(6.2)	(8.2)	(19.2)
Proceeds from sale of assets	1.3	67.0	0.3
Restricted cash withdrawals used to acquire timberlands	–	0.8	12.9
Net cash provided by (used for) investing activities	(4.9)	59.6	(6.0)
Cash flows from financing activities:			
Principal payments on Timber Notes and other timber related debt	(14.2)	(16.0)	(8.3)
Incurrence of deferred financing costs	–	–	(0.7)
Other changes in restricted cash	6.7	9.9	(169.0)
Member contributions (distributions)	(79.9)	–	179.8
Net cash provided by (used for) financing activities	(87.4)	(6.1)	1.8
Net increase (decrease) in cash, cash equivalents and restricted cash	(60.3)	96.8	(30.6)
Cash, cash equivalents and restricted cash at beginning of period	98.1	1.3	31.9
Cash, cash equivalents and restricted cash at end of period	$ 37.8	$ 98.1	$ 1.3
Supplemental disclosure of non-cash investing and financing activities:			
Repurchases of debt using restricted cash	$ –	$ 52.5	$ –
Contribution of assets by Pacific Lumber	–	5.7	6.1
Supplemental disclosure of cash flow information:			
Interest paid	$ 58.4	$ 63.1	$ 64.3

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

SCOTIA PACIFIC COMPANY LLC

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

Scotia Pacific Company LLC (the **"Company"**) is a Delaware limited liability company wholly owned by The Pacific Lumber Company (**"Pacific Lumber"**), which is a wholly owned subsidiary of MAXXAM Group Inc. (**"MGI"**). MGI is a wholly owned subsidiary of MAXXAM Group Holdings Inc. (**"MGHI"**), which is a wholly owned subsidiary of MAXXAM Inc. (**"MAXXAM"**). The Company is a special purpose limited liability company organized in May 1998 to facilitate the offering of $160.7 million of 6.55% Class A-1, $243.2 million of 7.11% Class A-2 and $463.3 million of 7.71% Class A-3 Timber Collateralized Notes due 2028 (the **"Timber Notes"**). Concurrent with the closing (the **"Closing"**) on July 20, 1998, of the offering of the Timber Notes, Scotia Pacific Holding Company (**"Scotia Pacific"**) was merged into the Company and Pacific Lumber and Salmon Creek LLC, a wholly owned subsidiary of Pacific Lumber (**"Salmon Creek"**), transferred to the Company approximately 13,500 acres of timberlands and the timber and related timber harvesting rights (but not the underlying land) with respect to an additional approximately 19,700 acres of timberlands. The Company in turn transferred to Pacific Lumber the timber and related timber harvesting rights (but not the underlying land) with respect to approximately 1,400 acres of timberlands. The merger and the transfers have been accounted for as a reorganization of entities under common control which requires the Company to record the assets, liabilities and results of operations of Scotia Pacific after giving effect to the transfers as well as the assets, liabilities and results of operations acquired from Pacific Lumber and Salmon Creek at their respective historical cost. Accordingly, the Company is the successor entity to all of Scotia Pacific's historical operations (exclusive of the assets transferred to Pacific Lumber) and to the historical operations attributable to the timberlands and timber and related timber harvesting rights acquired from Pacific Lumber and Salmon Creek.

Consistent with the Company's purpose and pursuant to the terms of the indenture governing the Timber Notes (the **"Indenture"**), the Company is obligated to set aside each month a portion of the funds it receives from the sale of logs to Pacific Lumber sufficient to make the specified payments of principal and interest on the Timber Notes computed in accordance with the Indenture and to have a sufficient amount to pay operating expenses and capital improvements.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published and (iii) the reported amount of revenues and expenses recognized during each period presented. The Company reviews all significant estimates affecting its financial statements on a recurring basis and records the effect of any necessary adjustments prior to filing the financial statements with the Securities and Exchange Commission. Adjustments made using estimates often relate to improved information not previously available. Uncertainties regarding such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, actual results could differ from estimates, and it is possible that the subsequent resolution of any one of the contingent matters described in Note 7 could differ materially from current estimates. The results of an adverse resolution of such uncertainties could have a material effect on the Company's financial position, results of operations or liquidity.

Summary of Significant Accounting Policies

Prepaid Timber Harvesting Costs and Other Long-term Assets

Direct costs associated with the preparation of timber harvesting plans (**"THPs"**) are capitalized and reflected in prepaid timber harvesting costs on the balance sheet. These costs are expensed as the timber covered by the related THP is harvested. Costs associated with the preparation of a sustained yield plan (**"SYP"**) and a multi-species habitat conservation plan (**"HCP"**) are capitalized and reflected in other long-term assets. These costs are being amortized over 10 years.

Timber and Timberlands

Timber and timberlands were recorded at the historical cost of Scotia Pacific, Pacific Lumber and Salmon Creek. Depletion is computed utilizing the unit-of-production method based upon estimates of timber quantities. Periodically, the Company will reassess its depletion rates considering currently estimated merchantable timber and will adjust the depletion rates prospectively.

Deferred Financing Costs

Costs incurred to obtain financing are deferred and amortized over the estimated term of the related borrowing. The amortization of deferred financing costs is included in interest expense on the income statement.

Concentrations of Credit Risk

Cash equivalents and marketable securities are invested primarily in short-term investment grade debt instruments as well as other types of corporate and government debt obligations. The Company mitigates its concentration of credit risk with respect to these investments by purchasing for the most part high grade investments (ratings of A1/P1 short-term or at least AA/aa long-term debt). No more than 10% is invested in the same issue.

Income Taxes

The Company, a single member limited liability company, has not made an election to be treated as an association and, therefore, is disregarded as a separate taxable entity solely for income tax purposes. The Company is treated as a division of Pacific Lumber for tax purposes. All income taxes with respect to the Company are shown on Pacific Lumber's financial statements, and all deferred income tax assets and deferred income tax liabilities with respect to the Company at December 31, 2001 and 2000 are reflected in Pacific Lumber's financial statements.

New Accounting Standard

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 which addresses accounting and reporting standards for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The Company is required to adopt SFAS No. 143 beginning on January 1, 2003. Management is assessing the impact of the standard on its results of operations and financial position.

2. Significant Acquisitions and Dispositions

Headwaters Transactions

In March 1999, the United States and California acquired approximately 5,600 acres of timberlands containing a significant amount of virgin old growth timber, from Salmon Creek and Pacific Lumber (the **"Headwaters Timberlands"**). 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 7 below for a discussion of additional arrangements entered into at the time.

The Company also entered into an agreement with California for the sale of a timber property known as the Owl Creek grove. On December 29, 2000, the Company sold the Owl Creek grove to California for $67.0 million, resulting in a pre-tax gain of $59.5 million.

3. Cash, Marketable Securities and Other Investments

Cash equivalents consist of highly liquid money market instruments with original maturities of three months or less. As of December 31, 2001 and 2000, the carrying amounts approximated fair value.

Marketable securities consist primarily of investments in debt securities. The Company determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as "held-to-maturity" when the Company has the positive intent and ability to hold the securities to maturity. Debt securities which the Company does not have the intent or ability to hold to maturity are classified as "available-for-sale." "Held-to-maturity" securities are stated at amortized cost. Debt securities classified as "held-to-maturity" as of December 31, 2001 and 2000, totaled $11.9 million and $18.9 million, respectively, and had a fair market value of $11.9 million and $18.9 million, respectively. "Available-for-sale" securities are carried at fair market value, with the unrealized gains and losses included in other comprehensive income and reported in member's deficit. The fair value of substantially all securities is determined by quoted market prices.

Cash, marketable securities and other investments include the following amounts which are restricted under the terms of the Company's debt agreements (in millions):

	December 31, 2001	December 31, 2000
Current assets:		
Cash and cash equivalents, restricted	$ 35.3	$ 29.2
Marketable securities, restricted:		
Amounts held in SAR Account	17.1	16.3
	52.4	45.5
Long-term restricted cash, marketable securities and other investments:		
Amounts held in SAR Account	137.8	144.4
Other amounts restricted under the Indenture	2.8	2.9
Less: Amounts attributable to repurchased Timber Notes held in SAR Account	(53.0)	(52.7)
	87.6	94.6
Total restricted cash, marketable securities and other investments	$ 140.0	$ 140.1

Amounts in the Scheduled Amortization Reserve Account (the **"SAR Account"**) are being held by the trustee under the Indenture to support principal payments on the Timber Notes. See Note 5 for further discussion of the SAR Account. The current portion of the SAR Account is determined based on the liquidity needs of the Company which corresponds directly with the current portion of Scheduled Amortization. Interest and other income from restricted cash deposits for 2001, 2000 and 1999 was $7.9 million, $8.5 million and $1.6 million, respectively.

On March 5, 2002, the Company notified the trustee for the Timber Notes that the Company had met all of the requirements of the SAR Reduction Date as defined in the Indenture. Accordingly, on March 20, 2002, the Company released $29.4 million from the SAR Account and distributed this amount to Pacific Lumber.

Funds held in the SAR Account include a limited partnership interest in the **"Equity Fund Partnership,"** which invests in a diversified portfolio of common stocks and other equity securities whose issuers are involved in merger, tender offer, spin-off or recapitalization transactions. This investment is accounted for under the equity method. The following table shows the Company's investment in the Equity Fund Partnership and the ownership interest (dollars in millions).

	December 31, 2001	December 31, 2000
Investment in Equity Fund Partnership	$ 10.6	$ 10.1
Percentage of ownership held	3.1%	10.8%

As of December 31, 2001, long-term restricted cash, marketable securities, and other investments also included $5.1 million related to an investment in a limited partnership which invests in, among other things, debt and equity securities associated with developed and emerging markets.

4. Property and Equipment

Property and equipment were recorded at the historical cost of Scotia Pacific, Pacific Lumber and Salmon Creek. Subsequent acquisitions of property and equipment are recorded at cost. Depreciation is computed principally utilizing the straight-line method at rates based upon the estimated useful lives of the various classes of assets. The carrying value of property and equipment is assessed when events and circumstances indicate that an impairment might exist. The existence of an impairment is determined by comparing the net carrying value of the asset to its estimated undiscounted future cash flows. If an impairment is present, the asset is reported at the lower of carrying value or fair value. The major classes of property and equipment are as follows (dollar amounts in millions):

	Estimated Useful Lives	December 31, 2001	2000
Logging roads	15 years	$ 32.3	$ 28.9
Other	5 – 15 years	1.6	1.4
		33.9	30.3
Less: accumulated depreciation		(13.0)	(11.3)
		$ 20.9	$ 19.0

Depreciation expense for the years ended December 31, 2001, 2000 and 1999 was $1.8 million, $1.9 million and $1.6 million, respectively.

5. Debt

The Company issued $867.2 million aggregate principal amount of Timber Notes on July 20, 1998, which are due at various times through July 20, 2028. The Timber Notes are senior secured obligations of the Company and do not constitute obligations of, and are not guaranteed by, Pacific Lumber or any other person. The Timber Notes were issued in three classes: Class A-1 Timber Notes aggregating $160.7 million, Class A-2 Timber Notes aggregating $243.2 million and Class A-3 Timber Notes aggregating $463.3 million. Pursuant to the terms of the Indenture, the Company is permitted to incur up to $75.0 million at any one time of non-recourse indebtedness secured by purchase money mortgages to acquire additional timberlands, an unspecified amount of Additional Timber Notes (as defined in the Indenture) provided certain conditions are met, and certain other debt on a limited basis. The Company is not permitted to incur any other indebtedness for borrowed money. The Timber Notes and the Line of Credit (as defined below) are secured by a lien on (i) the Company's timber, timberlands and timber rights (subject to Pacific Lumber's ownership of the timber and related timber harvesting rights on approximately 400 acres of such timberlands), (ii) certain contract rights and certain other assets, (iii) the proceeds of the foregoing and (iv) funds held in various accounts by the Trustee for the Timber Notes. Amounts payable on the Timber Notes are paid semi-annually, generally on January 20 and July 20 of each year (each, a **"Note Payment Date"**).

The Timber Notes were structured to link, to the extent of cash available, the deemed depletion of the Company's timber (through the harvest and sale of logs) to the required amortization of the Timber Notes. The required amount of amortization on any Note Payment Date is determined by various mathematical formulas set forth in the Indenture. Scheduled Amortization of the Timber Notes represents the amount of principal which the Company must pay through each Note Payment Date in order to avoid payment of prepayment or deficiency premiums. The Scheduled Maturity Dates for the Class A-1 and Class A-2 Timber Notes, which are January 20, 2007 and January 20, 2014, respectively, represent the Note Payment Dates on which the Company will pay the final installment of principal if all payments of principal are made in accordance with Scheduled Amortization. The Scheduled Amortization for the Class A-3 Timber Notes does not include any principal amortization prior to their Scheduled Maturity Date of January 20, 2014 on which the aggregate principal amount of $463.3 million will be scheduled to be paid. Minimum Principal Amortization of the Timber Notes represents the minimum amount of principal which the Company must pay (on a cumulative basis and subject to available cash) on such Class, to the extent of available funds on deposit in the Payment Account, through any Note Payment Date. If the Timber Notes were amortized in accordance with Minimum Principal Amortization, the final installments of principal would be paid on January 20, 2010, July 20, 2017 and July 20, 2028 for the Class A-1, Class A-2 and Class A-3 Timber Notes, respectively.

In November 1999, $169.0 million of funds from the sale of the Headwaters Timberlands were contributed to the Company and set aside in the SAR Account. Amounts in the SAR Account are part of the collateral securing the Timber Notes and will be used to make principal payments to the extent that other available amounts are insufficient to pay Scheduled Amortization on the Class A-1 and Class A-2 Timber Notes. In addition, during the six years beginning January 20, 2014, amounts in the SAR Account will be used to amortize the Class A-3 Timber Notes as set forth in the Indenture, as amended. Funds may from time to time be released to the Company from the SAR Account if the amount in the account exceeds the then Required Scheduled Amortization Reserve Balance (as defined in the Indenture). If the balance in the SAR Account falls below the Required Scheduled Amortization Reserve Balance, up to 50% of any Remaining Funds (funds that could otherwise be released to the Company free of the lien securing the Timber Notes) is required to be used on each monthly deposit date to replenish the SAR Account. The amount attributable to Timber Notes held in the SAR Account of $53.0 million reflected in Note 3 represents $57.7 million principal amount of reacquired Timber Notes. Repurchases made during the year ended December 31, 2000, resulted in an extraordinary gain of $6.0 million.

The Company has the right to cause additional prepayments of principal to be made on any Note Payment Date. If the principal of the Timber Notes is paid in advance of Scheduled Amortization, the Company will pay a prepayment premium on such accelerated payment. The prepayment premium on any Note Payment Date is equal to the excess, if any, of (a) the sum of (i) the present value of the prepayment amount (discounted from the date(s) that the prepayment amount would otherwise have been paid under the Scheduled Amortization to the Note Payment Date) plus (ii) the sum of the present values of the amounts of interest that would have accrued thereafter with respect to the prepayment amount over (b) the amount of the prepayment. The present value is computed using a "Reinvestment Yield" (as defined in the Indenture) which is comparable to the yield of like term U.S. Treasury securities plus 0.50% per annum.

If the principal of the Timber Notes is paid later than as provided for under the Scheduled Amortization, the Company will pay a deficiency premium on such deficient amount. The deficiency premium payable on any Note Payment Date equals an amount of interest on the amount of the deficient principal amount from the previous Note Payment Date to the current Note Payment Date at 1.50% per annum. In addition, if the Class A-3 Timber Notes are not paid in full on or before their Scheduled Maturity Date, a Cash Retention Event (as defined in the Indenture) will occur as a result of which 75% of all Excess Funds (as defined in the Indenture) will be deposited in the Payment Account until all classes of Timber Notes are paid in full.

The following table presents the amortization of the Timber Notes, excluding $57.7 million face value of repurchased Timber Notes held in the SAR Account, based on Minimum Principal Amortization and Scheduled Amortization (in millions):

	Minimum Principal Amortization	Scheduled Amortization
Years Ending December 31:		
2002	$ –	$ 14.8
2003	4.0	16.7
2004	12.8	19.2
2005	14.7	21.7
2006	17.9	25.3
Thereafter	719.7	671.4
	$ 769.1	$ 769.1

As of December 31, 2001 and 2000, the estimated fair value of debt, including current maturities, was $640.6 million and $688.1 million, respectively. The estimated fair value of debt is determined based on the quoted market price for the Timber Notes. The Timber Notes are thinly traded financial instruments; accordingly, their market price at any balance sheet date may not be representative of the price which would be derived from a more active market.

Pursuant to certain liquidity requirements under the Indenture, the Company has entered into an agreement (the **"Line of Credit"**) with a group of banks (the **"Liquidity Providers"**) pursuant to which the Company may borrow to pay interest on the Timber Notes. The maximum amount the Company may borrow is equal to one year's interest on the aggregate outstanding principal balance of the Timber Notes (the **"Required Liquidity Amount"**). At December 31, 2001, the Required Liquidity Amount was $60.9 million. The Line of Credit expires on July 12, 2002. Annually, the Company will request that the Liquidity Providers extend the Line of Credit for a period of not less than 364 days. If not extended, the Company may draw upon the full amount available. The amount drawn would be repayable in 12 semiannual installments on each Note Payment Date (after the payment of certain other items, including the Aggregate Minimum Principal Amortization Amount, as defined, then due), commencing approximately two and one-half years following the date of the draw. Borrowings under the Line of Credit generally bear interest at the Base Rate (as defined in the Line of Credit) plus 0.25% or at a one month or six month LIBOR rate plus 1.0% at any time the borrowings have not been continually outstanding for more than six months. As of December 31, 2001, the Company had no borrowings outstanding under the Line of Credit.

During the year ended December 31, 2001, the Company used $67.3 million set aside in the note payment account to pay the $57.4 million of interest due as well as $9.9 million of principal. The Company repaid an additional $4.3 million of principal on the Timber Notes using funds held in the SAR Account, resulting in total principal payments of $14.2 million, an amount equal to Scheduled Amortization.

On the note payment date in January 2002, the Company had $33.9 million set aside in the note payment account to pay the $28.4 million of interest due as well as $5.5 million of principal. The Company repaid an additional $6.1 million of principal on the Timber Notes using funds held in the SAR Account, resulting in a total principal payment of $11.6 million, an amount equal to Scheduled Amortization.

With respect to the note payment due in July 2002, the Company expects that it will require funds from the Line of Credit to pay a portion of the interest due, and that all of the funds used to pay the Scheduled Amortization amount will be provided from the SAR Account.

6. Related Party Transactions

At the time of Closing, the Company and Pacific Lumber entered into a master purchase agreement (the **"Master Purchase Agreement"**) which governs all log sales by the Company to Pacific Lumber. Substantially all of the Company's revenues have been and are expected to continue to be derived from the sale of logs to Pacific Lumber. The harvested logs are purchased by Pacific Lumber (i.e., title passes and the obligation to make payment therefor is incurred) at the time each log is measured. The Master Purchase Agreement generally contemplate that all sales of logs by the Company to Pacific Lumber will be at the applicable stumpage prices for each species of timber and category thereof, as set forth in the most recent Harvest Value Schedule published by the California State Board of Equalization (the **"SBE Price"**). Harvest Value Schedules are published twice a year for purposes of computing timber yield taxes.

The Company and Pacific Lumber also entered into a services agreement at the time of Closing (the **"Services Agreement"**), pursuant to which Pacific Lumber provides a variety of operational, management and related services in respect of the Company's timber properties not provided by the Company employees, including reforestation, fire protection and road maintenance, rehabilitation and construction. In addition, Pacific Lumber provides services to the Company with respect to the defense of any legal challenges. The Company pays a Services Fee (as defined) in an initial amount of $107,000 per month adjusted annually based on the producer price index and reimburses Pacific Lumber for the cost of constructing, rehabilitating and maintaining roads and performing reforestation services. For the years ended December 31, 2001, 2000, and 1999, $9.7 million, $11.6 million, and $9.9 million was recorded under the Services Agreement, respectively.

7. 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, dealing with timber harvesting practices, threatened and endangered species and habitat for such species, and air and water quality.

The SYP complies with regulations of the California Board of Forestry and Fire Protection 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 California Department of Forestry and Fire Protection (the **"CDF"**). Revised SYPs will be prepared every decade that address the harvest level based upon assessment 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 species have been listed as endangered or threatened under the federal Endangered Species Act (the **"ESA"**) and/or the California Endangered Species Act (**"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.

Under the federal Clean Water Act (the **"CWA"**), the Environmental Protection Agency (**"EPA"**) is required to establish total maximum daily load limits (**"TMDLs"**) in water courses that have been declared to be "water quality impaired." The EPA and the North Coast Regional Water Quality Control Board (the **"North Coast Water 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 December 1999, the EPA issued a 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 2000 report by the staff of the North Coast Water Board proposed various actions, including restrictions on harvesting beyond those required under the HCP. 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.

Since the consummation of the Headwaters Agreement in March 1999, there has been a significant amount of work required in connection with the implementation of the Environmental Plans, and this work is expected to continue for several more years. During the implementation period, government agencies had until recently failed to approve THPs in a timely manner. The rate of approvals of THPs during 2001 improved over that for the prior year, and further improvements have been experienced thus far in 2002. However, it continues to be below levels which meet the Company's expectations. Nevertheless, the Company anticipates that once the Environmental Plans are fully implemented, the process of preparing THPs will become more streamlined, and the time to obtain approval of THPs will potentially be shortened.

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, 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, et al.* (the "***Wrigley lawsuit***") was filed. This action alleges, among other things, that the defendants' logging practices have contributed to an increase in flooding and damage to domestic water systems in a portion of the Elk River watershed. The Company believes that it has strong factual and legal defenses with respect to the *Wrigley lawsuit*; however, there can be no assurance that it will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

On March 31, 1999, an action entitled *Environmental Protection Information Center, Sierra Club v. California Department of Forestry and Fire Protection, California Department of Fish and Game, The Pacific Lumber Company, Scotia Pacific Company LLC, Salmon Creek Corporation, et* al. (***"EPIC-SYP/Permits lawsuit"***) was filed alleging, among other things, various violations of the CESA and the California Environmental Quality Act, and challenging, among other things, the validity and legality of the SYP and the Permits issued by California. August 5, 2002, has been set as the trial date. On March 31, 1999, an action entitled *United Steelworkers of America, AFL-CIO, CLC, and Donald Kegley vs. California Department of Forestry and Fire Protection, The Pacific Lumber Company, Scotia Pacific Company LLC and Salmon Creek* Corporation (***"USWA lawsuit"***) was filed also challenging the validity and legality of the SYP. June 10, 2002, has been set as the trial date. 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.

On July 24, 2001, an action entitled *Environmental Protection Information Association v. Pacific Lumber, Scotia Pacific Company LLC* (the ***"Bear Creek lawsuit"***) was filed. The lawsuit alleges that the Company and Pacific Lumber's harvesting and other activities under certain of its approved and proposed THPs will result in discharges of pollutants in violation of the CWA. The plaintiff asserts that the CWA requires the defendants to obtain a permit from the North Coast Water Board before beginning timber harvesting and road construction activities in the Bear Creek watershed, and is seeking to enjoin these activities until such permit has been obtained. The plaintiff also seeks civil penalties of up to $27,000 per day for the defendant's alleged continued violation of the CWA. The Company believes that the requirements under the HCP are adequate to ensure that sediment and pollutants from its harvesting activities will not reach levels harmful to the environment. Furthermore, EPA regulations specifically provide that such activities are not subject to CWA permitting requirements. The Company believes that it has strong legal defenses in this matter; however, there can be no assurance that this lawsuit will not have a material adverse effect on its consolidated financial condition or results of operations.

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.

8. Comprehensive Income (Loss) and Member Deficit

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

	Years Ended December 31, 2001	2000	1999
Net income (loss)	$ 15.1	$ 104.6	$ (32.4)
Other comprehensive income:			
Change in value of available-for-sale investments	0.5	1.1	–
Total comprehensive income (loss)	$ 15.6	$ 105.7	$ (32.4)

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

	Years Ended December 31, 2001	2000	1999
Balance at beginning of period	$ (288.0)	$ (399.4)	$ (552.9)
Comprehensive income (loss)	15.6	105.7	(32.4)
Contribution of assets by Pacific Lumber	–	5.7	6.1
Other contributions (distributions)	(79.9)	–	179.8
Balance at end of period	$ (352.3)	$ (288.0)	$ (399.4)

9. Quarterly Financial Information (Unaudited)

Summary quarterly financial information for the years ended December 31, 2001 and 2000 is as follows (in millions):

	Three Months Ended March 31	June 30	September 30	December 31
2001:				
Log sales to Pacific Lumber	$ 13.1	$ 32.7	$ 30.4	$ 22.8
Operating income	7.8	24.9	19.6	12.2
Net income (loss)	(4.6)	12.2	6.6	0.9
2000:				
Log sales to Pacific Lumber	$ 20.3	$ 26.8	$ 47.3	$ 33.6
Operating income	14.4	19.5	37.3	21.9
Net income (loss)	2.2	5.9	24.3	72.2

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Not applicable.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Index to Financial Statements **Page**

1. Financial Statements (included under Item 8):

2. Financial Statement Schedules:

Schedules are inapplicable or the required information is included in the financial statements or the notes thereto.

(b) Reports on Form 8-K

b. Reports on Form 8-K:

On October 22, 2001, the Company filed a current report on Form 8-K (under Item 9), related to the filing of a certificate in respect of the Company's Timber Notes.

On November 20, 2001, the Company filed a current report on Form 8-K (under Item 9), related to the filing of a certificate in respect of the Company's Timber Notes.

On December 20, 2001, the Company filed a current report on Form 8-K (under Item 9), related to the filing of a certificate in respect of the Company's Timber Notes.

On January 22, 2002, the Company filed a current report on Form 8-K (under Item 9), related to the filing of two certificates in respect of the Company's Timber Notes.

On February 20, 2002, the Company filed a current report on Form 8-K (under Item 9), related to the filing of a certificate in respect of the Company's Timber Notes.

On March 20, 2002, the Company filed a current report on Form 8-K (under Item 9), related to the filing of a certificate in respect of the Company's Timber Notes.

(c) Exhibits

Reference is made to the Index of Exhibits immediately preceding the exhibits hereto (beginning on page 30, which index is incorporated herein by reference).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SCOTIA PACIFIC COMPANY LLC

Date: April 1, 2002 By: ROBERT E. MANNE
Robert E. Manne
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: April 1, 2002 By: JOHN A. CAMPBELL
John A. Campbell
Chairman of the Board and Manager

Date: April 1, 2002 By: JARED G. CARTER
Jared G. Carter
Manager

Date: April 1, 2002 By: J. KENT FRIEDMAN
J. Kent Friedman
Manager

Date: April 1, 2002 By: EZRA G. LEVIN
Ezra G. Levin
Manager

Date: April 1, 2002 By: ROBERT E. MANNE
Robert E. Manne
Manager

Date: April 1, 2002 By: PAUL N. SCHWARTZ
Paul N. Schwartz
Manager

Date: April 1, 2002 By: JACK M. WEBB
Jack M. Webb
Independent Manager

Date: April 1, 2002 By: SID C. WEISS
Sid C. Weiss
Independent Manager

Date: April 1, 2002 By: GARY L. CLARK
Gary L. Clark
Vice President – Finance and Administration
(Principal Financial and Accounting Officer)

INDEX OF EXHIBITS

Exhibit Number	Description
3.1	Certificate of Formation of Scotia Pacific Company LLC (the "Company") (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4 dated September 21, 1998; Registration No. 333-63825; the "Company's Form S-4")
3.2	Agreement of Limited Liability Company of the Company, effective as of July 20, 1998 (incorporated herein by reference to Exhibit 3.2 to the Company's Form S-4)
4.1	Agreement and Plan of Merger, dated as of July 20, 1998, between the Company and Scotia Pacific Holding Company (incorporated herein by reference to Exhibit 4.1 to the Company's Form S-4)
4.2	Indenture, dated as of July 20, 1998, between the Company and State Street Bank and Trust Company ("State Street") regarding the Company's Class A-1, Class A-2 and Class A-3 Timber Collateralized Notes (the "Indenture") (incorporated herein by reference to Exhibit 4.2 to the Quarterly Report on Form 10-Q/A of MAXXAM Inc. ("MAXXAM") for the quarter ended June 30, 1998; File No. 1-3924; the "MAXXAM June 1998 Form 10-Q")
4.3	First Supplemental Indenture, dated as of July 16, 1999, to the Indenture (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999; the "Company June 1999 Form 10-Q")
4.4	Second Supplemental Indenture, dated as of November 18, 1999, to the Indenture (incorporated herein by reference to Exhibit 99.3 to the Company's Report on Form 8-K dated November 19, 1999)
4.5	Credit Agreement, dated as of July 20, 1998, among the Company, the financial institutions party thereto and Bank of America National Trust and Savings Association, as agent (the "Bank of America Credit Agreement") (incorporated herein by reference to Exhibit 4.3 to the MAXXAM June 1998 Form 10-Q)
4.6	First Amendment, dated as of July 16, 1999, to the Bank of America Credit Agreement (incorporated herein by reference to the Company June 1999 Form 10-Q)
4.7	Second Amendment, dated as of June 15, 2001, to the Bank of America Credit Agreement (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001)
4.8	Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Proceeds, dated as of July 20, 1998, among the Company, Fidelity National Title Insurance Company, as trustee, and State Street, as collateral agent (incorporated herein by reference to Exhibit 4.2 to the MAXXAM June 1998 Form 10-Q)
10.1	New Master Purchase Agreement, dated as of July 20, 1998, between the Company and The Pacific Lumber Company ("Pacific Lumber") (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of MAXXAM Group Holdings Inc. for the quarter ended June 30, 1998; File No. 333-18723; the "MGHI June 1998 Form 10-Q")
10.2	New Services Agreement, dated as of July 20, 1998, between Pacific Lumber and the Company (incorporated herein by reference to Exhibit 10.2 to the MGHI June 1998 Form 10-Q)
10.3	New Additional Services Agreement, dated as of July 20, 1998, between the Company and Pacific Lumber (incorporated herein by reference to Exhibit 10.3 to the MGHI June 1998 Form 10-Q)
10.4	New Reciprocal Rights Agreement, dated as of July 20, 1998, among Pacific Lumber, the Company and Salmon Creek Corporation ("Salmon Creek") (incorporated herein by reference to Exhibit 10.4 to the MGHI June 1998 Form 10-Q)

Exhibit Number	Description
10.5	New Environmental Indemnification Agreement, dated as of July 20, 1998, between Pacific Lumber and the Company (incorporated herein by reference to Exhibit 10.5 to the MGHI June 1998 Form 10-Q)
10.6	Implementation Agreement with Regard to Habitat Conservation Plan for the Properties of Pacific Lumber, the Company and Salmon Creek dated as of February 1999 by and among the United States Department of the Interior Fish and Wildlife Service ("USFWS"), the National Marine Fisheries Service, the California Department of Fish and Game ("CDF&G"), the California Department of Forestry and Fire Protection (the "CDF") and Pacific Lumber, Salmon Creek and the Company (incorporated herein by reference to Exhibit 99.3 to the Company's Form 8-K dated March 19, 1999; the "Company March 19, 1999 Form 8-K")
10.7	Agreement Relating to Enforcement of AB 1986 dated as of February 25, 1999 by and among The California Resources Agency, CDF&G, the CDF, The California Wildlife Conservation Board, Pacific Lumber, Salmon Creek and the Company (incorporated herein by reference to Exhibit 99.4 to the Company March 19, 1999 Form 8-K)
10.8	Habitat Conservation Plan dated as of February 1999 for the Properties of Pacific Lumber, Scotia Pacific Holding Company and Salmon Creek (incorporated herein by reference to Exhibit 99.5 to the Company March 19, 1999 Form 8-K)
10.9	Letter dated as of February 25, 1999 from the CDF to Pacific Lumber (incorporated herein by reference to Exhibit 99.8 to the Company March 19, 1999 Form 8-K)
10.10	Letter dated as of March 1, 1999 from the CDF to Pacific Lumber (incorporated herein by reference to Exhibit 99.9 to the Company March 19, 1999 Form 8-K)
10.11	Letter dated as of March 1, 1999 from the USFWS and the U.S. Department of Commerce National Oceanic and Atmospheric Administration to Pacific Lumber, Salmon Creek and the Company (incorporated herein by reference to Exhibit 99.10 to the Company March 19, 1999 Form 8-K)
*99.1	Letter dated April 1, 2002, to the Securities and Exchange Commission from the Company related to assurances the Company has received from Arthur Andersen LLP with respect to the audit of its financial statements for the fiscal year ended December 31, 2001.

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* Included with this filing