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

FORM 10-Q

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

For the quarterly period ended September 30, 2004

Commission File Number 333-63825

SCOTIA PACIFIC COMPANY LLC
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**68-0414690** (I.R.S. Employer Identification Number)
P. O. Box 712 **125 Main Street, 2nd Floor** **Scotia, California** (Address of Principal Executive Offices)	**95565** (Zip Code)

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

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

Yes ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

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

TABLE OF CONTENTS

SCOTIA PACIFIC COMPANY LLC

BALANCE SHEET
(In millions of dollars)

	September 30, 2004 (Unaudited)	December 31, 2003
Assets		
Current assets:		
Cash, cash equivalents, and restricted cash	$ 3.5	$ 5.2
Marketable securities, restricted	25.1	22.2
Receivables from Palco	7.8	4.9
Prepaid timber harvesting costs	6.0	5.6
Other current assets	1.5	1.2
Total current assets	43.9	39.1
Timber and timberlands, net of accumulated depletion of $288.2 and $282.2, respectively	226.6	230.0
Property and equipment, net of accumulated depreciation of $19.0 and $17.1, respectively	27.3	25.7
Deferred financing costs, net	12.3	13.5
Restricted cash, marketable securities and other investments	15.1	35.4
Other assets	4.1	4.7
	$ 329.3	$ 348.4
Liabilities and Member Deficit		
Current liabilities:		
Payables to Palco	$ 1.0	$ 0.9
Accrued interest	10.5	24.5
Other accrued liabilities	2.8	2.4
Short-term borrowings	31.4	–
Current maturities of long-term debt, excluding $7.0 and $4.6, respectively, of repurchased Timber Notes held in the SAR Account	18.0	17.6
Total current liabilities	63.7	45.4
Long-term debt, less current maturities and excluding $51.8 and $54.3, respectively, of repurchased Timber Notes held in the SAR Account	691.4	713.9
Other noncurrent liabilities	0.3	0.3
Total liabilities	755.4	759.6
Contingencies (See Note 3)		
Member deficit	(426.1)	(411.2)
	$ 329.3	$ 348.4

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

SCOTIA PACIFIC COMPANY LLC

STATEMENT OF LOSS
(In millions of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Unaudited)			
Log sales to Palco	$ 21.7	$ 22.4	$ 50.9	$ 55.9
Operating expenses:				
General and administrative	6.4	6.1	16.3	16.5
Depletion, depreciation and amortization	3.3	3.7	8.6	9.8
Gain on sales of timberlands and other assets	–	–	–	(0.8)
	9.7	9.8	24.9	25.5
Operating income	12.0	12.6	26.0	30.4
Other income (expense):				
Interest and other income (expense)	(0.2)	1.0	1.1	3.2
Interest expense	(13.8)	(14.1)	(41.4)	(42.6)
Net loss	$ (2.0)	$ (0.5)	$ (14.3)	$ (9.0)

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

SCOTIA PACIFIC COMPANY LLC

STATEMENT OF CASH FLOWS
(In millions of dollars)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (14.3)	$ (9.0)
Adjustments to reconcile net loss to net cash used for operating activities:		
Gain on repurchase of debt	–	(0.4)
Gain on sales of timberlands and other assets	–	(0.8)
Depletion, depreciation and amortization	8.6	9.8
Amortization of deferred financing costs	1.0	1.0
Increase (decrease) in cash resulting from changes in:		
Receivables from Palco	(2.9)	(5.9)
Prepaid timber harvesting costs	(0.4)	1.2
Payables to Palco	0.1	0.5
Accrued interest	(14.0)	(14.2)
Other accrued liabilities	0.4	0.8
Other	(0.3)	(0.6)
Net cash used for operating activities	(21.8)	(17.6)
Cash flows from investing activities:		
Proceeds from sales of timberlands and other assets	–	3.2
Capital expenditures	(6.1)	(5.9)
Net cash used for investing activities	(6.1)	(2.7)
Cash flows from financing activities:		
Principal payments on Timber Notes and other timber related debt	(17.2)	(16.5)
Net changes in restricted cash	12.0	9.8
Borrowings under line of credit agreement, net	31.4	20.3
Net cash provided by financing activities	26.2	13.6
Net decrease in cash, cash equivalents, and restricted cash	(1.7)	(6.7)
Cash, cash equivalents and restricted cash at beginning of period	5.2	10.1
Cash, cash equivalents and restricted cash at end of period	$ 3.5	$ 3.4
Supplemental disclosure of non-cash financing activities:		
Repurchases of debt using restricted cash	$ 4.8	$ 3.4
Supplemental disclosure of cash flow information:		
Interest paid	$ 54.3	$ 55.9

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

SCOTIA PACIFIC COMPANY LLC

CONDENSED NOTES TO FINANCIAL STATEMENTS

1. General

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

The financial statements included herein are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair presentation of the financial position of the Company at September 30, 2004, the results of operations for the three and nine months ended September 30, 2004 and 2003, and the cash flows for the nine months ended September 30, 2004 and 2003. The Company is a wholly owned subsidiary of Palco which is a wholly owned subsidiary of MGI. MGI is an indirect wholly owned subsidiary of MAXXAM.

Liquidity and Cash Resources

The Company's cash flows from operations are significantly impacted by harvest volumes and log prices. In June 2004, the State Board of Equalization adopted the new Harvest Value Schedule for the second half of 2004. The prices published in that schedule reflected a 1.6% increase in the SBE Price for small redwood logs and a 14.3% increase for small Douglas-fir logs from the prices published for the first half of 2004.

On the note payment date in January 2004, the Company had $4.1 million set aside in the note payment account to pay the $27.2 million of interest due (net of $2.0 million of additional interest due in respect of Timber Notes held by the Company). The funds available under the Line of Credit were used to pay the remaining amount of interest due. The Company repaid $12.7 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

On the note payment date in July 2004, the Company used $26.6 million (net of $2.1 million of additional interest due in respect of Timber Notes held by the Company) of the funds available under the Line of Credit to pay the entire amount of interest due. The Company repaid $4.5 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

With respect to the note payment date in January 2005, the Company expects to use the funds available under the Line of Credit to pay the entire $26.3 million of interest which will be due (net of $2.2 million of additional interest which would be due in respect of Timber Notes held by the Company). The Company expects to repay $10.8 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

As discussed further in Note 3, regulatory compliance and litigation have caused and may continue to cause delays in harvesting, which could result in a decline in harvest.

With respect to short-term liquidity, the Company believes that cash flows from operations and funds available under the Line of Credit (in respect of interest payments) and the SAR Account (in respect of principal payments), should provide sufficient funds to meet its working capital, capital expenditures and debt service obligations for the next twelve months; however, there can be no assurance that this will be the case. With respect to long-term liquidity, although the Company believes that cash flows from operations and funds available under the Line of Credit and the SAR Account should be adequate to meet its working capital, capital expenditure and debt service obligations, unless log prices continue to improve, there can be no assurance that this will be the case. In addition, liquidity, capital resources and results of operations will be adversely affected if harvest levels decline or costs increase as a result of the various regulatory, environmental and litigation matters discussed in Note 3.

2. Restricted Cash, Cash Equivalents, Marketable Securities and Other Investments

The following amounts are restricted under the terms of the Company's debt agreements (in millions):

	September 30, 2004	December 31, 2003
Current assets:		
Restricted cash and cash equivalents	$ –	$ 1.4
Marketable securities, restricted:		
Amounts held in SAR Account	25.1	22.2
	25.1	23.6
Long-term restricted cash, cash equivalents, marketable securities and other investments:		
Amounts held in SAR Account	66.9	87.7
Other amounts restricted under the Indenture	2.5	2.5
Less: Amounts attributable to Timber Notes held in SAR Account	(54.3)	(54.8)
	15.1	35.4
Total restricted cash, cash equivalents, marketable securities and other investments	$ 40.2	$ 59.0

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

Environmental Plans

From March 1999 until October 2002, the Company prepared THPs in accordance with the SYP. The SYP was intended to comply 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 would not exceed the average annual growth level during the last decade of the 100-year planning period. The forest practice rules allow companies which do not have a sustained yield plan to follow an alternative procedure to document compliance with the sustained yield requirements. As discussed below, on October 31, 2003, the Court hearing the *EPIC-SYP/Permits lawsuit* entered a judgment invalidating the SYP and the California Permits. As a result of an earlier stay order issued in this case, the Company has since October 2002 been obtaining review and approval of THPs under this alternative procedure and expects to follow this procedure for the foreseeable future.

The HCP and related Federal Permits allow incidental "take" of certain federally listed species located on the Company's timberlands 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 HCP and Federal Permits have terms of 50 years. 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 could continue for several more years.

Water Quality

Laws and regulations dealing with water quality are impacting the Company primarily in three areas: efforts by the EPA and the North Coast Water Board to establish TMDLs in water courses that have been declared to be water quality impaired; actions by the North Coast Water Board to impose waste discharge reporting requirements in respect of watersheds on the Company's timberlands and in some cases, clean-up or prevention measures; and other actions by the North Coast Water Board during the THP approval process which impose certain operational requirements on individual THPs.

Under the California Water Quality Control Act and the CWA, the EPA is required to establish TMDLs in water courses that have been declared to be "water quality impaired." The EPA and the North Coast Water Board are in the process of establishing TMDLs for many 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. The final TMDL requirements applicable to the Company's timberlands may require aquatic protection measures that are different from or in addition to those in the HCP or that result from the prescriptions to be developed pursuant to the watershed analysis process provided for in the HCP.

Since the 2002-2003 winter operating period, the Company and Palco have been required to submit "Reports of Waste Discharge" to the North Coast Water Board each year in order to conduct winter harvesting activities in the Elk River and Freshwater watersheds. After consideration of these reports, the North Coast Water Board imposed requirements on the Company and Palco to implement additional mitigation and erosion control practices in these watersheds for the last two winter operating periods. In addition, the North Coast Water Board has extended the requirements for certain mitigation and erosion control practices to the Bear, Jordan and Stitz watersheds. Reporting and mitigation requirements imposed by the North Coast Water Board have modestly increased operating costs and may in the future further increase costs, cause delays in THP approvals or lower harvest levels. In addition, the North Coast Water Board has issued the Elk River Order which is aimed at addressing existing sediment production sites in the Elk River watershed through clean up actions. The North Coast Water Board has also initiated the process which could result in similar orders for the Freshwater and Bear Creek watersheds, and is contemplating similar actions for the Jordan and Stitz Creek watersheds. The Elk River Order has resulted in increased costs to Palco that could extend over a number of years. Additional orders in other watersheds (should they be issued) may also result in increased costs. Palco's appeal of the Elk River Order to the State Water Board was denied. Palco is in the process of appealing in state court the decision of the State Water Board. These matters could reduce harvest levels as Palco is not able to readily move its harvesting activities between watersheds due to, among other things, historic harvest patterns, adjacency restrictions, and the age classes of trees.

Effective January 1, 2004, California Senate Bill 810 provides regional water quality control boards with additional authority related to the approval of THPs on land within impaired watersheds. The Company is uncertain of the operational and financial effects which will ultimately result from Senate Bill 810; however, because substantially all rivers and waterbodies on the Company's timberlands are classified as impaired, implementation of this law could result in delays in obtaining approvals of THPs, lower harvest levels and increased costs and additional protection measures beyond those contained in the HCP.

Timber Harvest Litigation

A California state court has invalidated the SYP in connection with two lawsuits filed against Palco and the Company, as described below, which decision has been appealed. Other judicial and administrative proceedings are pending which could have the result of preventing the Company from implementing the HCP, implementing certain of the Company's approved THPs, or carrying out certain other operations. The Services Agreement requires Palco to prepare and file on behalf of the Company (at Palco's cost) all pleadings and motions, and otherwise diligently pursue, appeals of any denial, and defense of any challenge to approval, of any THP or the Environmental Plans or similar plan or permit and related matters.

In March 1999, the *EPIC-SYP/Permits lawsuit* was filed. This action alleged, among other things, various violations of the CESA and the California Environmental Quality Act, and challenged, among other things, the validity and legality of the SYP and the California Permits. The plaintiffs sought, among other things, to set aside California's approval of the SYP and the California Permits and injunctive relief to prevent implementation of THPs approved in reliance upon these documents. In March 1999, the *USWA lawsuit*, a similar action, was filed challenging the validity and legality of the SYP. The *EPIC-SYP/Permits* and *USWA lawsuits* were consolidated for trial. On October 31, 2003, the Court entered a judgment invalidating the SYP and the California Permits due to several deficiencies in agency procedures and the failure of the Company and Palco to submit a complete and comprehensible SYP. The Court's decision, however, allowed for harvesting on THPs which rely on the SYP and were approved prior to July 23, 2003. The short-term effect of the ruling was to preclude approval, under the SYP, of a small number of THPs which were under review but had not been approved, and a minor reduction in 2003 harvesting that had been expected from these specific THPs. As a result of this case, the Company has since October 2002, when the Court issued a stay order preventing future reliance upon the SYP, been obtaining review and approval of new THPs under a procedure provided for in the forest practice rules that does not depend upon the SYP and the California Permits and expects to follow this procedure for the foreseeable future. In November 2003, Palco appealed the October 31, 2003, decision. In January 2004, the plaintiffs in these lawsuits filed claims against the defendants totaling $5.8 million for reimbursement of attorneys fees and other expenses incurred in connection with these matters, and the trial judge granted the request for reimbursement on September 24, 2004. Palco and the State of California have appealed this decision.

In July 2001, the *Bear Creek lawsuit* was filed and later amended to add the EPA as a defendant. The lawsuit alleges that the Company's and Palco's harvesting and other forestry activities under certain of its approved 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 and is seeking to enjoin these activities until such permit has been obtained. The plaintiff also seeks civil penalties of up to $27,500 per day for the defendant's alleged continued violation of the CWA. On October 14, 2003, in connection with certain motions that had been filed, the Court upheld the validity of an EPA regulation which exempts harvesting and other forestry activities from certain discharge requirements. Both state and federal agencies, along with Palco and other timber companies, have relied upon this regulation for more than 25 years. However, the Court interpreted the regulation in such a way as to narrow the forestry operations which are exempted, thereby limiting the regulation's applicability and subjecting culverts and ditches to permit requirements. This ruling has widespread implications for the timber industry in the United States. The case is not yet final as the trial has not yet been held, and there are many unresolved issues involving interpretation of the Court's decision and its application to actual operations. Should the decision ultimately become final and be held to apply to all Palco's timber operations, it may have some or all of the following effects: impose additional permitting requirements, delay approvals of THPs, increase harvesting costs, and add water protection measures beyond those contained in the HCP. Nonetheless, it is not likely that civil penalties will be awarded for operations that occurred prior to the Court's decision due to the historical reliance by timber companies on the regulation and the Company's belief 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. While the impact of a conclusion to this case that upholds the October 14, 2003, ruling may be adverse, the Company does not believe that such an outcome would have a material adverse impact on the Company's financial condition, results of operations or liquidity. Nevertheless, due to the numerous ways in which the Court's interpretation of the regulation could be applied to actual operations, there can be no assurance that this will be the case.

In November 2002, the *Cook* and the *Cave actions* were filed which name Palco and certain affiliates as defendants. On April 4, 2003, the plaintiffs in these actions filed amended complaints and served the defendants with notice of the actions. The *Cook action* alleges, among other things, that defendants' logging practices have contributed to an increase in flooding along Freshwater Creek (which runs through the Company's timberlands), resulting in personal injury and damage to the plaintiffs' properties. Plaintiffs further allege that in order to have THPs approved in the affected areas, the defendants engaged in certain unfair business practices. The plaintiffs seek, among other things, compensatory and exemplary damages, injunctive relief, and appointment of a receiver to ensure that the watershed is restored. The *Cave action* contains similar allegations and requests similar relief with respect to the Elk River watershed (a portion of which is contained on the Company's timberlands). The Company does not believe the resolution of these actions should result in a material adverse effect on its financial condition, results of operations or liquidity.

In February 2003, the District Attorney of Humboldt County filed the *Humboldt DA action*. The suit was filed under California's unfair competition law and alleges that Palco, the Company and Salmon Creek used certain unfair business practices in connection with completion of the Headwaters Agreement, and that this resulted in the ability to harvest significantly more trees under the Environmental Plans than would have otherwise been the case. The suit sought a variety of remedies including a civil penalty of $2,500 for each additional tree that has been or will be harvested due to this alleged increase in harvest, as well as restitution and an injunction in respect of the additional timber harvesting allegedly being conducted. In response to motions filed by the Company and Palco for sanctions and dismissal of this suit, on April 30, 2004, the Court issued a ruling requiring the District Attorney to amend his suit to prove that "extrinsic" fraud occurred. In addition, the Court eliminated the remedies being sought, other than for civil penalties, and suggested that it would be inappropriate to base civil penalties on the additional trees harvested. The Court also ruled that it declined "at this juncture" to impose sanctions on the District Attorney. The Company believes that this suit is without merit and that the April 30 ruling diminished significantly its exposure with respect to this matter; however, there can be no assurance that the Company will ultimately prevail or that an adverse outcome would not be material to the Company's financial condition, results of operations and/or liquidity.

In December 2003, the *HWC 2003 lawsuit*, naming the Company and Palco as real parties in interest, was filed. The plaintiffs allege that the North Coast Water Board should have required waste discharge reports in respect of all timber harvesting activities in the Freshwater and Elk River watersheds, and are seeking to have this requirement imposed on the Company and Palco. The Company does not believe that the resolution of this action should result in a material adverse effect on its financial condition, results of operations or liquidity.

On November 2, 2004, the *EPIC-USFWS/NOAA lawsuit* was filed. The lawsuit alleges that two federal agencies have violated certain federal laws and related regulations in connection with their oversight of the HCP and Federal Permits. The plaintiff also alleges that the Federal Permit for the northern spotted owl was unlawfully issued and that the Company and Palco violated California's unfair competition law by using false advertising and making misleading environmental claims. The plaintiff seeks a variety of remedies including requiring additional actions by the federal agencies and precluding them from authorizing take of the northern spotted owl, an injunction requiring the Company and Palco to cease certain alleged unlawful activities, as well as restitution and remediation by the Company and Palco. The Company and Palco are still in the process of evaluating this lawsuit.

The *Van Duzen THPs lawsuit* was filed on November 4, 2004, seeking a writ of mandate to stay or set aside CDF's approval of six THPs along the Van Duzen River submitted by the Company and Palco. The plaintiffs allege that these THPs rely on information submitted to CDF by the Company and Palco intended to demonstrate the Company's and Palco's compliance with California's sustained yield requirements that was not made available for public review and comment. In addition to the relief described above, the plaintiffs seek a writ of mandate ordering CDF to conduct further review and analysis of the six THPs and to refrain from reliance on the information not made public. The Company and Palco are still in the process of evaluating this lawsuit.

In November 2001, Palco filed the *THP No. 520 lawsuit* alleging that the State Water Board had no legal authority to impose mitigation measures that were requested by the staff of the North Coast Water Board during the THP review process and rejected by the CDF. When the staff of the North Coast Water Board attempted to impose these mitigation measures in spite of the CDF's decision, Palco appealed to the State Water Board, which imposed certain of the requested mitigation measures and rejected others. Palco filed the *THP No. 520 lawsuit* challenging the State Water Board's decision, and in January 2003, the Superior Court granted Palco's request for an order invalidating the imposition of these additional measures. The State Water Board appealed this decision and on March 18, 2004 the appellate court reversed the decision of the Superior Court. The appellate court's decision could result in increased demands by the regional and state water boards and their staffs to impose controls and limitations upon Palco's timber harvesting beyond those provided for by the Environmental Plans or could provide additional regulatory powers to the regional and state water boards and their staffs beyond those provided in Senate Bill 810. Palco has filed a petition for review of the appellate court's decision by the California Supreme Court, which has agreed to review the decision.

4. Comprehensive Loss and Member Deficit

Comprehensive loss includes the following (in millions):

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net loss	$ (2.0)	$ (0.5)	$ (14.3)	$ (9.0)
Other comprehensive income (loss):				
Net change in fair value of available-for-sale investments	0.1	(0.1)	(0.6)	(0.2)
Total comprehensive loss	$ (1.9)	$ (0.6)	$ (14.9)	$ (9.2)

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Balance at beginning of period	$ (411.2)	$ (405.5)
Comprehensive loss	(14.9)	(9.2)
Balance at end of period	$ (426.1)	$ (414.7)

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

The following should be read in conjunction with the financial statements in Part I. Item 1. of this Report and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statements and Supplementary Data" of the Form 10-K. Any capitalized terms used but not defined in this Item are defined in the "Glossary of Defined Terms" contained in Appendix A. Except as otherwise noted, all references to Notes represent the Condensed Notes to Financial Statements included herein.

This Quarterly Report on Form 10-Q contains statements which constitute "forward-looking statements" within the meaning of the PSLRA. These statements appear in a number of places in this section and in Part II. Item 1. "Legal Proceedings." Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from 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, litigation developments, and changing prices and market conditions. This Form 10-Q and the Form 10-K identify other factors which could cause 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.

Results of Operations

Regulatory and environmental matters as well as certain pending legal matters play a significant role in the Company's operations. See Item 1. "Business – Regulatory and Environmental Factors" in the Form 10-K and Note 3 for a discussion of these matters.

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 and regulation. As a result of these restrictions, a substantial majority of the future harvesting on the Company's timberlands can be expected to be concentrated during the period from June through October of each year.

Log Sales to Pacific Lumber

The following table presents price, volume and revenue amounts for the Company for the periods indicated (revenues in millions).

	Three Months Ended September 30, 2004			Three Months Ended September 30, 2003		
	MBFEs	Price $/MBFE	Revenues	MBFEs	Price $/MBFE	Revenues
Redwood	19,900	$ 811	$ 16.2	26,200	$ 691	$ 18.1
Douglas Fir	9,800	545	5.3	8,200	502	4.1
Other	500	351	.2	800	216	0.2
	30,200	717	$ 21.7	35,200	636	$ 22.4

	Nine Months Ended September 30, 2004			Nine Months Ended September 30, 2003		
	MBFEs	Price $/MBFE	Revenues	MBFEs	Price $/MBFE	Revenues
Redwood	55,200	$ 762	$ 42.1	73,200	$ 672	$ 49.2
Douglas Fir	16,500	513	8.5	13,900	453	6.3
Other	1,300	259	.3	1,600	250	0.4
	73,000	697	$ 50.9	88,700	630	$ 55.9

For the three months ended September 30, 2004, the Company experienced a 10% decrease in redwood log revenues compared to the three months ended September 30, 2003, due predominately to a decrease in the volume of larger redwood logs sold; however, this decrease was offset somewhat by a realized price increase of 17% for redwood logs.

For the nine months ended September 30, 2004, the Company experienced a decrease in redwood log volume of 25% compared to the same period of 2003. A 13% increase in the average realized price for redwood logs somewhat offset the impact of the decrease in redwood log volume. A 19% increase in Douglas-fir volume and a 13% increase in the average realized price for Douglas fir logs, during the nine months ended September 30, 2004, compared to the same period of 2003, also offset the decrease in redwood log revenue. Although the number of harvested redwood logs was comparable between the nine months ended September 30, 2004, and the nine months ended September 30, 2003, the decrease in redwood volume is primarily attributable to a smaller size-class of log available in current timber harvest plans compared to the prior year period.

Operating Income and Net Loss

Operating income for the three and nine months ended September 30, 2004 declined from the prior year period due to the decrease in log sales discussed above.

The net loss between 2003 and 2004 for both the three and nine month periods increased due to lower operating income discussed above and decreases in gains resulting from sales of timberlands and repurchases of debt, and low returns on investments.

Financial Condition and Investing and Financing Activities

This section contains statements which constitute "forward-looking statements" within the meaning of the PSLRA. See this section and above for cautionary information with respect to such forward-looking statements.

Due to its highly leveraged condition, the Company is more sensitive than less leveraged companies to factors affecting its operations, including low log prices, governmental regulation and litigation affecting timber harvesting practices on the Company's timberlands (see Note 3), and general economic conditions.

On September 30, 2004, the Company had unused availability of $25.6 million under the Line of Credit, and there was $31.4 million outstanding under this facility.

On the note payment date in January 2004, the Company had $4.1 million set aside in the note payment account to pay the $27.2 million of interest due (net of $2.0 million of additional interest due in respect of Timber Notes held by the Company). The funds available under the Line of Credit were used to pay the remaining amount of interest due. The Company repaid $12.7 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

On the note payment date in July 2004, the Company used $26.6 million (net of $2.1 million of additional interest due in respect of Timber Notes held by the Company) of the funds available under the Line of Credit to pay the entire amount of interest due. The Company repaid $4.5 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

With respect to the note payment date in January 2005, the Company expects to use the funds available under the Line of Credit to pay the entire $26.3 million of interest which will be due (net of $2.2 million of additional interest which would be due in respect of Timber Notes held by the Company). The Company expects to repay $10.8 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

During the first nine months of 2004, $4.8 million of funds from the SAR Account were used to repurchase $5.0 million principal amount of Timber Notes, as permitted under the Indenture, resulting in a small gain (net of unamortized deferred financing costs) on the repurchase of debt.

Subsequent to September 30, 2004, $5.7 million of funds from the SAR Account were used to repurchase $5.7 million principal amount of Timber Notes, as permitted under the Indenture, resulting in a loss of $0.3 million (net of unamortized deferred financing costs) on the repurchase of debt.

On June 8, 2004, Standard & Poor's Ratings Service announced that it was lowering its ratings on all classes of the Timber Notes. Ratings on the Class A-1 Timber Notes were lowered from BBB+ to BBB-; ratings on the Class A-2 Timber Notes were lowered from BBB to BB; and ratings on the Class A-3 Timber Notes were lowered from BB to B. Standard & Poor's also indicated that all ratings were removed from the agency's negative CreditWatch, where they were placed in November 2002, and that the lowered ratings reflect the negative impact that depressed timber prices, lower harvest levels and higher capital/operating costs have had on the Company's cash flow available for debt service.

With respect to short-term liquidity, the Company believes that cash flows from operations and funds available under the Line of Credit (in respect of interest payments) and the SAR Account (in respect of principal payments), should provide sufficient funds to meet its working capital, capital expenditures and debt service obligations for the next twelve months; however, there can be no assurance that this will be the case. With respect to long-term liquidity, although the Company believes that cash flows from operations and funds available under the Line of Credit and the SAR Account should be adequate to meet its working capital, capital expenditure and debt service obligations, unless log prices continue to improve, there can be no assurance that this will be the case. In addition, liquidity, capital resources and results of operations will be adversely affected if harvest levels decline or costs increase as a result of the various regulatory, environmental and litigation matters discussed in Note 3.

Palco, which has historically purchased all of the Company's logs, will require funds available under its credit agreement in order to meet its working capital and capital expenditure requirements for the next year. Furthermore, Palco's cash flows from operations may be adversely affected by diminished availability of logs from the Company, lower lumber prices, adverse weather conditions, and pending legal, regulatory and environmental matters.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet financing or unconsolidated special purpose entities. The Company does not utilize interest rate swaps, hedging arrangements or any other type of derivative instruments.

Critical Accounting Policies and Estimates

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" of the Form 10-K for a discussion of the Company's critical accounting policies and estimates. There have been no material changes to the Company's critical accounting policies and estimates provided in the Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in interest rates under the Line of Credit, which was established in conjunction with the offering of the Timber Notes. As of September 30, 2004, there were $31.4 million in borrowings outstanding under the Line of Credit. Based on the amount of borrowings outstanding under the Line of Credit during the nine months ended September 30, 2004, the impact of a 1% change in interest rates effective from the beginning of the year would not have been material to the Company's interest expense for the period.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 3 is incorporated herein by reference.

ITEM 6. EXHIBITS

* 31.1 Section 302 Certification of Chief Executive Officer
* 31.2 Section 302 Certification of Chief Financial Officer
* 32.1 Section 906 Certification of Chief Executive Officer
* 32.2 Section 906 Certification of Chief Financial Officer

* Included with this filing

SIGNATURE

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

SCOTIA PACIFIC COMPANY LLC

Date: November 12, 2004

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

APPENDIX A

Glossary of Defined Terms

Set forth below is a list of all terms used in this Report.

Bear Creek lawsuit: An action entitled *Environmental Protection Information Association v. Pacific Lumber, Scotia Pacific Company LLC* (No. C01-2821) pending in the U.S. District Court for the Northern District of California

California Permits: The Permits issued by California pursuant to the HCP

Cave action: An action entitled *Steve Cave, et al. v. Gary Clark, et al.* (No. DR020719) pending in the Superior Court of Humboldt County, California

CDF: California Department of Forestry and Fire Protection

CESA: California Endangered Species Act

Company: Scotia Pacific Company LLC, a limited liability company wholly owned by Palco

Cook action: An action entitled *Alan Cook, et al. v. Gary Clark, et al.* (No. DR020718) pending in the Superior Court of Humboldt County, California

CWA: Federal Clean Water Act

Elk River Order: Clean up and abatement order issued to Palco by the North Coast Water Board for the Elk River watershed

Environmental Plans: The HCP and the SYP

EPA: Environmental Protection Agency

EPIC-SYP/Permits lawsuit: An action entitled *Environmental Protection Information Association, Sierra Club v. California Department of Forestry and Fire Protection, California Department of Fish and Game, The Pacific Lumber Company, Scotia Pacific Company LLC, Salmon Creek Corporation, et al.* pending in the Superior Court of Humboldt County, California (No. CV990445)

EPIC-USFWS/NOAA lawsuit: An action entitled *Environmental Protection Information Center v. U.S. Fish & Wildlife Service, NOAA Fisheries, et al.* (No. C04-4647), pending in U.S. Court for the Northern District of California

Federal Permits: The Permits issued by the federal government pursuant to the HCP

Form 10-K: The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2003

Harvest Value Schedule: A schedule setting forth SBE Prices which is published biannually by the California State Board of Equalization for purposes of computing yield taxes on timber sales

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

Headwaters Agreement: The September 1996 agreement between Palco, the Company, Salmon Creek , the United States and California which provided the framework for the acquisition by the United States and California of the Headwaters Timberlands

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

Humboldt DA action: A civil suit filed in the Superior Court of Humboldt County, California, by the District Attorney of Humboldt County entitled *The People of the State of California v. Pacific Lumber, Scotia Pacific Holding Company and Salmon Creek Corporation* (No. DR030070)

HWC 2003 lawsuit: An action entitled *Humboldt County Watershed Council, et al. v. North Coast Regional Water Quality Control Board, et al.* (No. CV030961), naming Palco as real party in interest, pending in the Superior Court of Humboldt County, California

Indenture: The indenture governing the Timber Notes

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

MAXXAM: MAXXAM Inc.

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

MGI: MAXXAM Group Inc., an indirect wholly owned subsidiary of MAXXAM

North Coast Water Board: North Coast Regional Water Quality Control Board

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

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

PSLRA: Private Securities Litigation Reform Act of 1995

Salmon Creek: Salmon Creek LLC, a wholly owned subsidiary of Palco

SAR Account: Funds held in a reserve account titled the Scheduled Amortization Reserve Account and used to support principal payments on the Timber Notes

SBE Price: The applicable stumpage price for a particular species and size of log, as set forth in the most recent Harvest Value Schedule

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

Services Agreement: Agreement between the Company and Palco under which Palco provides operational, management and related services to the Company with respect to the Company's timberlands

State Board of Equalization: The California State Board of Equalization

State Water Board: California State Water Resources Control Board

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

take: Adverse impacts on species which have been designated as endangered or threatened

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

THP No. 520 lawsuit: An action entitled *The Pacific Lumber Company, et al. v. California State Water Resources Control Board* (No. DR010860) pending in the Superior Court of Humboldt County, California

Timber Notes: The Company's 6.55% Series B Class A-1 Timber Collateralized Notes, 7.11% Series B Class A-2 Timber Collateralized Notes and 7.71% Series B Class A-3 Timber Collateralized Notes due July 20, 2028

TMDLs: Total maximum daily load limits

USWA lawsuit: An action entitled *United Steelworkers of America, AFL-CIO, CLC, and Donald Kegley v. California Department of Forestry and Fire Protection, The Pacific Lumber Company, Scotia Pacific Company LLC and Salmon Creek Corporation* (No. CV990452) pending in the Superior Court of Sacramento County, California

Van Duzen THPs lawsuit: An action entitled *Environmental Protection Information Center, et al. v. California Department of Forestry and Fire Protection, et al.* (No. CV04-0809), pending in the Superior Court of Humboldt County, California