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 March 31, 2005

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 9

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

Yes 9 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.

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SCOTIA PACIFIC COMPANY LLC

BALANCE SHEET
(In millions of dollars)

	March 31, 2005	December 31, 2004
	(Unaudited)	
Assets		
Current assets:		
Cash, cash equivalents and restricted cash	$ 0.5	$ 0.5
Marketable securities, including restricted amounts of $26.3 and $25.1, respectively	28.9	28.2
Receivables from Palco	5.4	3.3
Prepaid timber harvesting costs	5.9	6.2
Other current assets	0.8	1.1
Total current assets	41.5	39.3
Timber and timberlands, net of accumulated depletion of $291.9 and $290.1, respectively	224.6	225.1
Property and equipment, net of accumulated depreciation of $20.3 and $19.6, respectively	28.3	28.1
Deferred financing costs, net	11.4	11.8
Restricted cash, marketable securities and other investments	–	9.2
Intangible assets	3.6	3.8
	$ 309.4	$ 317.3
Liabilities and Member Deficit		
Current liabilities:		
Payable to Palco	$ 1.1	$ 1.5
Accrued interest	10.7	23.8
Other accrued liabilities	1.9	1.9
Short-term borrowings and current maturities of long-term debt, excluding $10.3 and $9.5, respectively, of repurchased Timber Notes held in the SAR Account	57.4	33.8
Total current liabilities	71.1	61.0
Long-term debt, less current maturities and excluding $48.1 and $55.4, respectively, of repurchased Timber Notes held in the SAR Account	675.7	687.7
Other noncurrent liabilities	0.6	0.2
Total liabilities	747.4	748.9
Contingencies (See Note 3)		
Member deficit	(438.0)	(431.6)
	$ 309.4	$ 317.3

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 March 31,	
	2005	2004
	(Unaudited)	
Log sales to Palco	$ 16.1	$ 15.9
Operating expenses:		
General and administrative	6.5	5.2
Depletion, depreciation and amortization	2.7	2.8
	9.2	8.0
Operating income	6.9	7.9
Other income (expense):		
Interest and other income	0.3	1.3
Interest expense	(13.8)	(13.9)
	(13.5)	(12.6)
Net loss	$ (6.6)	$ (4.7)

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

SCOTIA PACIFIC COMPANY LLC

STATEMENT OF CASH FLOWS
(In millions of dollars)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (6.6)	$ (4.7)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depletion, depreciation and amortization	2.7	2.8
Amortization of deferred financing costs	0.4	0.3
Increase (decrease) in cash resulting from changes in:		
Receivables from Palco	(2.1)	(3.0)
Prepaid timber harvesting costs	0.3	–
Payable to Palco	(0.4)	0.3
Accrued interest	(13.1)	(13.9)
Other accrued liabilities	0.5	0.1
Other	0.3	0.4
Net cash used for operating activities	(18.0)	(17.7)
Cash flows from investing activities:		
Proceeds from sales of marketable securities and other investments	0.5	–
Capital expenditures	(2.2)	(2.2)
Net cash used for investing activities	(1.7)	(2.2)
Cash flows from financing activities:		
Principal payments on Timber Notes and other timber related debt	(10.6)	(12.7)
Net changes in restricted cash	8.1	9.4
Borrowings under line of credit agreement, net	22.2	21.7
Net cash provided by financing activities	19.7	18.4
Net decrease in cash, cash equivalents, and restricted cash	–	(1.5)
Cash, cash equivalents and restricted cash at beginning of period	0.5	2.0
Cash, cash equivalents and restricted cash at end of period	$ 0.5	$ 0.5
Supplemental disclosure of non-cash financing activities:		
Repurchases of debt using restricted cash	$ –	$ 3.6
Supplemental disclosure of cash flow information:		
Interest paid	$ 26.5	$ 27.4

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

CONDENSED NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The information contained in the following condensed 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 needed 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 March 31, 2005, the results of operations for the three months ended March 31, 2005 and 2004, and the cash flows for the three months ended March 31, 2005 and 2004. 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

Regulatory and environmental matters as well as legal actions have played and are expected to continue to play a significant role in the Company's operations. The Company has previously experienced delays in the approval of its THPs as a result of regulatory compliance and related litigation, and expects these difficulties to persist. Moreover, the Company expects a recurrence of additional delays that have recently been experienced in harvesting on previously-approved THPs due to regulatory oversight by the North Coast Water Board (see below). The foregoing matters have in the past adversely affected timber harvest and timber harvesting and other costs; these effects are expected to continue.

The North Coast Water Board is requiring the Company and Palco to apply various waste discharge reporting, mitigation and erosion control requirements in respect of timber harvesting activities in several watersheds, and may impose additional measures in the future. The North Coast Water Board in December 2003 directed its staff to formulate WWDRs for the Freshwater and Elk River watersheds on the Company's timberlands. The WWDRs have not yet been formulated, and, as a result, the North Coast Water Board has failed to release for harvest THPs already approved by the other government agencies which review the Company's THPs and significantly delayed the release of a substantial number of other previously-approved THPs. The THPs approved for release by the North Coast Water Board restrict the harvest allowed to only 75% of the harvest limit established by the CDF for the Freshwater and Elk River watersheds. Moreover, a hearing officer acting on behalf of the State Water Board has issued a stay order which precludes harvest on a portion of the THPs that were released for harvest by the North Coast Water Board. The Company and Palco are continuing efforts to obtain clearance from the North Coast Water Board of the remaining THPs, which constitute a significant portion of the harvest planned for the first six months of 2005. The Company and Palco are also in the process of appealing the decision of the State Water Board hearing officer. There can be no assurance that these efforts will be successful. Additionally, should the Freshwater-Elk River WWDRs not be formulated during 2005 or in the first few months of 2006, there could be a material adverse impact to the Company's and Palco's future cash flows from operations. See Note 3 for further discussion of these matters.

The foregoing matters have materially adversely impacted the cash flows of both the Company and Palco. The Company estimates that its cash flows from operations, together with funds available under the Line of Credit, will be inadequate to pay all of the $27.9 million of interest which will be due on the July 20, 2005 payment date for the Timber Notes ($25.9 million net of interest relating to Timber Notes held by the Company), which would be an event of default under the Indenture. Under the new Revolving Credit Facility and Term Loan (discussed below), Palco is permitted to invest up to $5.0 million in the Company. However, there can be no assurance that Palco will make such investment in whole or part.

In the event of a failure to pay interest on the Timber Notes in full when due, the Trustee under the Indenture or the holders of at least 25% of the aggregate outstanding principal amount of the Timber Notes may cause all principal, interest and other amounts related to the Timber Notes to become immediately due and payable. Also, in the event of a failure by Palco or the Company to perform its respective covenants or agreements under the Master Purchase Agreement or the failure by Palco to perform its covenants or agreements under the Services Agreement, which failure continues for 30 days after notice from the Trustee or the holders of 25% or more of the outstanding principal amount of the Timber Notes, the holders of a majority of the aggregate outstanding principal amount of the Timber Notes may cause all principal, interest and other amounts related to the Timber Notes to become immediately due and payable. In the event of any such acceleration, the agent under the Company's Line of Credit may also accelerate the advances then outstanding thereunder. If such accelerations of Timber Notes and/or advances under the Company's Line of Credit occur, the Trustee may exercise all rights under the Indenture and related security documents, including applying funds to pay accelerated amounts, and selling the Company's timberlands and other assets and using the proceeds thereof to pay accelerated amounts. In the event that the Company were to seek protection by filing under the Bankruptcy Code, all amounts related to the Timber Notes would become immediately due and payable under the Indenture and all advances under the Company's Line of Credit agreement could be accelerated. The foregoing rights of the Trustee and holders of Timber Notes are subject to the rights of the Company under the Bankruptcy Code.

The Company has entered into an agreement for UBS Securities LLC to assist in seeking to restructure its obligations with respect to its outstanding Timber Notes. The engagement will continue until July 27, 2005 unless earlier terminated by either party. The Company agreed to pay such firm an advisory fee of $150,000 per month, creditable in full against a success fee of $5,600,000 that would be payable upon consummation of any restructuring transaction during or within twelve months after the term of the agreement, and also agreed to indemnify the firm and its affiliates and to reimburse certain expenses. There can be no assurance that the Company will be successful in its efforts to restructure its Timber Notes.

At March 31, 2005, Palco continued to be in default under the Palco Credit Agreement and its liquidity crisis continued. Previously-granted waivers of default were subsequently extended through April 22, 2005. On April 19, 2005, Palco and Britt, as borrowers, closed the five-year $30.0 million secured, asset-based Revolving Credit Facility and the five-year $35.0 million secured Term Loan. The Term Loan was fully funded on April 19, 2005 and the Borrowers used approximately $10.8 million of the funds from the Term Loan to pay off amounts previously borrowed under the Palco Credit Agreement and terminated that facility. As of April 30, 2005, no borrowings had been made under the Revolving Credit Facility. Palco estimates that its cash flow from operations will not provide sufficient liquidity to fund its operations until the fourth quarter of 2006. Accordingly, Palco expects to be dependent on the funds available under the Term Loan and Revolving Credit Facility to fund its working capital requirements in 2005 and 2006. Borrowings under the Revolving Credit Facility are limited to the sum of 85% of the Borrowers' eligible accounts receivable plus 75% of the Borrowers' eligible inventories (up to a maximum of $30.0 million, subject to limitations such as the ability of the lender to establish reasonable reserves). Additionally, both the Term Loan and the Revolving Credit Facility contain EBITDA maintenance covenants that, if not met, could trigger a mandatory prepayment of the borrowings. The operating cash flow estimates used to establish the EBITDA maintenance covenants are subject to a number of assumptions about future operating cash flow and actual results could differ from these estimates. Accordingly, the availability of these funds to Palco is largely dependent on Palco's ability to harvest adequate timber on the Company's timberlands and reduce operating costs.

In the event of a Company default under the Indenture or a future Palco liquidity shortfall, the Company and Palco could be forced to take extraordinary actions, which may include: reducing expenditures by laying off employees and shutting down various activities; seeking other sources of liquidity, such as from asset sales; and seeking protection by filing under the Bankruptcy Code. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

On February 7, 2005, Moody's lowered the ratings on the Class A-1 Timber Notes from A1 to Baa2; the Class A-2 Timber Notes from A3 to Baa3; and the Class A-3 Timber Notes from Baa2 to Bal. On April 7, 2005, S&P announced that it had further lowered its ratings on all classes of the Timber Notes to CCC–. On December 8, 2004, S&P lowered Palco's credit rating from B- to CCC+ and on April 7, 2005, S&P announced that it had further lowered Palco's credit rating to CCC- (which rating it affirmed on April 28, 2005). As a result of the S&P credit actions, Palco may be required to post a security deposit for workers compensation liabilities in July 2005 in the amount of $9.9 million. If Palco's credit rating is raised to B- or better, or if a waiver of this requirement is allowed under applicable law, then posting of such a security deposit may not be necessary. However, there can be no assurance that such a security deposit will not be required. Palco management is also evaluating whether other potential obligations or unanticipated adverse financial consequences may result from the S&P credit actions described above.

In addition, there can be no assurance that certain other pending legal, regulatory and environmental matters or future governmental regulations, legislation or judicial or administrative decisions, adverse weather conditions, or low lumber or log prices, will not have a material adverse effect on the Company's financial condition, results of operations or liquidity. See Note 3 for further discussion regarding regulatory and legislative matters and legal proceedings relating to the Company's operations.

The Company's Line of Credit allows it to borrow up to one year's interest due on the Timber Notes. On June 20, 2003, the Line of Credit was extended to July 7, 2006. At or near the completion of such extension, the Company intends to request that the Line of Credit be extended for an additional 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. At December 31, 2004, the Company could have borrowed a maximum of $57.1 million under the Line of Credit, and there was $18.2 million outstanding under the facility. At March 31, 2005, the maximum availability under the Line of Credit was $55.9 million, and there were $40.4 million in borrowings outstanding under this facility.

On the note payment date in January 2005, the Company used the Line of Credit to pay all of the $28.5 million of interest due ($26.3 million net of interest due in respect of Timber Notes held by the Company). The Company repaid $10.6 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

New Accounting Standard

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*. SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Opinion No. 29 provided an exception to this principle for exchanges of similar productive assets. Under Opinion No. 29, an exchange of a productive asset was based on the recorded amount of the asset relinquished. SFAS No. 153 eliminated this exception and replaced it with an exception for exchanges of nonmonetary assets that do not have commercial substance. The new Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Management does not expect that adoption of this Statement will have a material impact on the Company's financial condition and results of operations.

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

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

	March 31, 2005	December 31, 2004
Current assets:		
Restricted cash and cash equivalents	$ –	$ –
Marketable securities, restricted:		
Amounts held in SAR Account	26.3	25.1
	26.3	25.1
Long-term restricted cash, cash equivalents, marketable securities and other investments:		
Amounts held in SAR Account	52.0	68.5
Other amounts restricted under the Indenture	2.5	2.5
Less: Amounts attributable to Timber Notes held in SAR Account	(54.5)	(61.8)
	-	9.2
Total restricted cash, cash equivalents, marketable securities and other investments	$ 26.3	$ 34.3

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 CDF regulations requiring timber companies to project timber growth and harvest on their timberlands over a 100-year planning period and to demonstrate sustained yield, i.e. that their projected average annual harvest for any decade within the 100-year planning period will not exceed the average annual growth level at the end of the 100-year planning period. The forest practice rules allow companies which do not have a sustained yield plan to follow alternative procedures 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, and that decision is now on appeal. 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 alternative procedures pending approval of the Option A Plan, which is an alternative to a sustained yield plan. The Option A Plan was approved by the CDF in March 2005.

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 and additional costs required in connection with the implementation of the HCP and SYP, and this work and the additional costs are expected to continue for the forseeable future.

Water Quality

Laws and regulations dealing with water quality are impacting the Company and Palco primarily in four areas: efforts by the federal EPA and the North Coast Water Board to establish TMDLs in watercourses 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; actions by the North Coast Water Board during the THP approval process which impose certain operational requirements on individual THPs; and a directive of the North Coast Water Board to its staff to develop WWDRs for the Freshwater and Elk River watersheds.

Under the CWA, the EPA is required to establish TMDLs in watercourses 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 watercourses 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.

Beginning with 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 these 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 significantly increased Palco’s operating costs and may in the future further increase costs or cause delays in THP approvals or harvesting on approved THPs.

The North Coast Water Board has also issued the Elk River Order, which is a clean up and abatement order 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 the Palco Companies that could extend over a number of years. Additional orders in other watersheds (should they be issued) may also result in further cost increases. Palco’s appeal of the Elk River Order to the State Water Board was denied. Palco has appealed the decision of the State Water Board but is holding such appeal in abeyance until resolution of the *THP 520 lawsuit* discussed below.

In addition to the foregoing actions, the North Coast Water Board in December 2003 directed its staff to formulate WWDRs for the Freshwater and Elk River watersheds. As harvesting activities on the Company’s timberlands cannot readily be moved between watersheds due to, among other things, historic harvest patterns, adjacency restrictions, and the age classes of trees, that action and the other matters described above could, in addition to the potential effects noted above, individually or collectively result in reduced harvest. In that regard, the staff of the North Coast Water Board has not yet formulated the required WWDRs for the Freshwater and Elk River watersheds. As a result, the North Coast Water Board for some time failed to release for harvest a number of the Company’s THPs which had already been approved by the other governmental agencies which approve the Company’s THPs. On February 25, 2005, the Executive Officer of the staff of the North Coast Water Board enrolled THPs that would allow the harvest of up to 50% of the harvest limit established by the CDF for the Freshwater and Elk River watersheds. On March 16, 2005, the North Coast Water Board ordered that additional THPs be enrolled that would allow the harvest of up to 75% of the harvest limit established by the CDF for the Freshwater and Elk River watersheds. This decision was subsequently appealed to the State Water Board and on April 6, 2005, a hearing officer acting on behalf of the State Water Board issued a stay order that precludes harvest of a portion of the THPs that were released for harvest by the North Coast Water Board. The Company's request for emergency reconsideration by the full State Water Board of this decision was denied. The State Water Board is expected to hold a hearing on the merits of the appeal in June 2005.

The unreleased and stayed THPs represent a significant portion of the Company's planned harvest for the first half of 2005. The ongoing regulatory, environmental and litigation matters faced by the Company and Palco, exacerbated by the developments described in the previous paragraph, have materially adversely impacted the cash flows of both the Company and Palco. Furthermore, it is likely that additional delays in the development of the Freshwater and Elk River WWDRs will occur, and such delays are expected to continue.

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 sediment-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. Also see the description of the *THP No. 520 lawsuit* below.

Timber Harvest Litigation

A California state court has invalidated the SYP in connection with two lawsuits filed against the Palco Companies, as described below, which decision has been appealed. Other pending judicial and administrative proceedings, as described below, could affect the Company's and Palco's ability to implement the HCP, implement certain approved THPs, or carry out other operations, as described below. 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, a similar action, the *USWA lawsuit*, was filed challenging the validity and legality of the SYP. The *EPIC-SYP/Permits* and *USWA lawsuits* were consolidated for trial.

Following trial, the Court on October 31, 2003, entered a judgment invalidating the SYP and the California Permits due to several deficiencies in agency procedures and the failure of the Company and the Palco Companies 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 those 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 alternative procedures pending approval of the Option A Plan. As noted above, the Option A Plan was approved by the CDF in March 2005. The Palco Companies and the State of California have appealed the October 31, 2003 decision. In September 2004, the Court granted the plaintiffs' request for reimbursement of an aggregate of $5.8 million in attorneys fees and other expenses incurred in connection with these matters. The Palco Companies and the State of California have also 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 harvesting and other forestry activities under certain of the Company's 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 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 the Company 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 held to apply to all operations on the Company's timberlands, it may have some or all of the following effects: imposing additional permitting requirements, delaying approvals of THPs, increasing harvesting costs, and adding 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 harvesting activities on the Company's timberlands 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.

On November 20, 2002, the *Cook action* and the *Cave action* were filed, which also name the Company, 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.

On February 25, 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 the Palco Companies used certain unfair business practices in connection with completion of the Headwaters Agreement, and that this resulted in these companies being able 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 Palco Companies 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 District Attorney subsequently amended his suit, and the Palco Companies later filed new motions to dismiss and for sanctions. After delays resulting from the District Attorney's efforts to disqualify the trial judge, and that judge's later self-disqualification, a hearing on these motions was held on February 18, 2005. The Court rejected the sanctions motion, but has not yet ruled on the motion for dismissal. The Company believes that this suit is without merit and that the April 30, 2004 ruling diminished significantly its exposure with respect to this matter; however, there can be no assurance that the Palco Companies will ultimately prevail or that an adverse outcome would not be material to the Company's financial condition, results of operations or liquidity.

On November 2, 2004, the *EPIC-USFWS/NOAA lawsuit* was filed. This 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 asserted several claims, including that the Palco Companies 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 Palco Companies to cease certain alleged unlawful activities, as well as restitution and remediation by the Palco Companies. On April 22, 2005, pursuant to motions to dismiss filed by the Palco Companies, Palco and the federal defendants, the Court dismissed all but one of the claims. The Company does not believe the resolution of this action should result in a material adverse effect on its financial condition, results of operations or liquidity.

On November 16, 2001, the Company and 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 prior to approving the THP. When the staff of the North Coast Water Board attempted to impose these mitigation measures in spite of the CDF's decision, the Company and Palco appealed to the State Water Board, which imposed certain of the requested mitigation measures and rejected others. The Company and Palco filed the *THP No. 520 lawsuit* challenging the State Water Board's decision, and in January 2003, the Superior Court granted their 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 on harvesting on the Company's timberlands 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. The Company and Palco filed a petition for review of the appellate court's decision by the California Supreme Court, which in June 2004 agreed to review the decision. Briefing was completed on April 26, 2005, but no date has been set for oral argument.

4. Comprehensive Loss and Member Deficit

Comprehensive loss includes the following (in millions):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net loss	$ (6.6)	$ (4.7)
Other comprehensive income (loss):		
Net change in fair value of available-for-sale investments	0.2	(0.3)
Total comprehensive loss	$ (6.4)	$ (5.0)

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Balance at beginning of period	$ (431.6)	$ (411.2)
Comprehensive loss	(6.4)	(5.0)
Balance at end of period	$ (438.0)	$ (416.2)

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," "intends," "projects," "seeks" 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

This section contains statements which constitute "forward-looking statements" within the meaning of the PSLRA. See the statement in Item 2. above for cautionary information with respect to such forward-looking statements.

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 Palco

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

	Three Months Ended March 31, 2005			Three Months Ended March 31, 2004		
	MBFEs	Price $/MBFE	Revenues	MBFEs	Price $/MBFE	Revenues
Redwood	16,300	$ 827	$ 13.5	19,800	$ 717	$ 14.2
Douglas-fir	4,500	562	2.5	3,500	447	1.6
Other	700	59	0.1	400	174	0.1
	21,500	747	$ 16.1	23,700	668	$ 15.9

For the three months ended March 31, 2005, the Company experienced an overall 1% increase in revenues despite a 9% decrease in sales volume compared to the first three months of 2004. For the first three months of 2005, the Company experienced a 5% decrease in redwood log revenues compared to the three months ended March, 31, 2004, due primarily to a decrease in the volume of larger redwood logs sold; however, this decrease was partially offset by a realized price increase of 15% for redwood logs. A 56% increase in Douglas-fir revenues for the first three months of 2005 compared to the first three months of 2004 was accomplished by a 29% increase in volume combined with a 26% increase in average realized prices for Douglas-fir logs.

Operating Income and Net Loss

Operating income for the three months ended March 31, 2005 declined from operating income for the same period in 2004 due to the decrease in log sales as noted above combined with an increase in general and administrative operating expenses. The $1.3 million increase in general and administrative operating expenses for the three months ended March

31, 2005, as compared to the same period a year ago, is principally due to increased THP costs related to logs sold during the quarter and an increase in legal costs.

The net loss for the first three months ended March 31, 2005 was $1.9 million greater than for the same period of 2004 due to higher operating expenses, as noted above, combined with lower 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 the statement in Item 2. 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 and financial results, including adverse weather conditions, low log prices, governmental regulation, environmental litigation, and general economic conditions. The Company's cash flows from operations are significantly impacted by harvest volumes and log prices.

Regulatory and environmental matters as well as legal actions have played and are expected to continue to play a significant role in the Company's operations. The Company has previously experienced delays in the approval of its THPs as a result of regulatory compliance and related litigation, and expects these difficulties to persist. Moreover, the Company expects a recurrence of additional delays that have recently been experienced in harvesting on previously-approved THPs due to regulatory oversight by the North Coast Water Board (see below). The foregoing matters have in the past adversely affected timber harvest and timber harvesting and other costs; these effects are expected to continue. In addition, there can be no assurance that certain other pending legal, regulatory and environmental matters or future governmental regulations, legislation or judicial or administrative decisions, adverse weather conditions, or low lumber or log prices, will not have a material adverse effect on the Company's financial condition, results of operations or liquidity. See Item 1. "Business—Regulatory and Environmental Factors" of the Form 10-K and Note 3 for discussion of these matters.

The North Coast Water Board is requiring the Company and Palco to apply various waste discharge reporting, mitigation and erosion control requirements in respect of timber harvesting activities in several watersheds, and may impose additional measures in the future. The North Coast Water Board in December 2003 directed its staff to formulate WWDRs for the Freshwater and Elk River watersheds on the Company's timberlands. The WWDRs have not yet been formulated, and, as a result, the North Coast Water Board has failed to release for harvest THPs already approved by the other government agencies which review the Company's THPs and significantly delayed the release of a substantial number of other previously-approved THPs. The THPs approved for release by the North Coast Water Board restrict the harvest allowed to only 75% of the harvest limit established by the CDF for the Freshwater and Elk River watersheds. Moreover, a hearing officer acting on behalf of the State Water Board has issued a stay order which precludes harvest on a portion of the THPs that were released for harvest by the North Coast Water Board. The Company and Palco are continuing efforts to obtain clearance from the North Coast Water Board of the remaining THPs, which constitute a significant portion of the harvest planned for the first six months of 2005. The Company and Palco are also in the process of appealing the decision of the State Water Board hearing officer. There can be no assurance that these efforts will be successful. Additionally, should the Freshwater-Elk River WWDRs not be formulated during 2005 or in the first few months of 2006 there could be a material adverse impact to the Company's and Palco's future cash flows from operations. See Item 1. "Business—Regulatory and Environmental Factors—Water Quality," of the Form 10-K and in Note 3 for a further discussion of these matters.

The foregoing matters have materially adversely impacted the cash flows of both the Company and Palco. The Company estimates that its cash flows from operations, together with funds available under the Line of Credit, will be inadequate to pay all of the $27.9 million of interest which will be due on the July 20, 2005 payment date for the Timber Notes ($25.9 million net of interest relating to Timber Notes held by Scotia LLC), which would be an event of default under the Indenture. Under the new Revolving Credit Facility and Term Loan, Palco is permitted to invest up to $5.0 million in the Company. However, there can be no assurance that Palco will make such investment in whole or part.

In the event of a failure to pay interest on the Timber Notes in full when due, the Trustee under the Indenture or the holders of at least 25% of the aggregate outstanding principal amount of the Timber Notes may cause all principal, interest and other amounts related to the Timber Notes to become immediately due and payable. Also, in the event of a failure by Palco or the Company to perform its respective covenants or agreements under the Master Purchase Agreement or the failure by Palco to perform its covenants or agreements under the Services Agreement, which failure continues for 30 days after notice from the Trustee or the holders of 25% or more of the outstanding principal amount of the Timber Notes, the holders of a majority of the aggregate outstanding principal amount of the Timber Notes may cause all principal, interest and other amounts related to the Timber Notes to become immediately due and payable. In the event of any such acceleration, the agent under the Company's Line of Credit may also accelerate the advances then outstanding thereunder. If such accelerations of Timber Notes and/or advances under the Company's Line of Credit occur, the Trustee may exercise all rights under the Indenture and related security documents, including applying funds to pay accelerated amounts, and selling the Company's timberlands and other assets and using the proceeds thereof to pay accelerated amounts. In the event that the Company were to seek protection by filing under the Bankruptcy Code, all amounts related to the Timber Notes would become immediately due and payable under the Indenture and all advances under the Company's Line of Credit agreement could be accelerated. The foregoing rights of the Trustee and holders of Timber Notes are subject to the rights of the Company under the Bankruptcy Code.

The Company has entered into an agreement for UBS Securities LLC to assist in seeking to restructure its obligations with respect to its outstanding Timber Notes. The engagement will continue until July 27, 2005 unless earlier terminated by either party. The Company agreed to pay such firm an advisory fee of $150,000 per month, creditable in full against a success fee of $5,600,000 that would be payable upon consummation of any restructuring transaction during or within twelve months after the term of the agreement, and also agreed to indemnify the firm and its affiliates and to reimburse certain expenses. There can be no assurance that the Company will be successful in its efforts to restructure its Timber Notes.

At March 31, 2005, Palco continued to be in default under the Palco Credit Agreement and its liquidity crisis continued. Previously-granted waivers of the default were subsequently extended through April 22, 2005. On April 19, 2005, Palco and Britt, as borrowers, closed the five-year $30.0 million secured asset-based Revolving Credit Facility and the five-year $35.0 million secured Term Loan. The Term Loan was fully funded on April 19, 2005 and the Borrower used approximately $10.8 million of the funds from the Term Loan to pay off amounts previously borrowed under the Palco Credit Agreement and terminated that facility. As of April 30, 2005, no borrowings had been made under the Revolving Credit Facility. Palco estimates that its cash flow from operations will not provide sufficient liquidity to fund its operations until the fourth quarter of 2006. Accordingly, Palco expects to be dependent on the funds available under the Term Loan and Revolving Credit Facility to fund its working capital requirements in 2005 and 2006. Borrowings under the Revolving Credit Facility are limited to the sum of 85% of the Borrowers' eligible accounts receivable plus 75% of the Borrowers' eligible inventories (up to a maximum of $30.0 million, subject to limitations such as the ability of the lender to establish reasonable reserves). Additionally, both the Term Loan and the Revolving Credit Facility contain EBITDA maintenance covenants that, if not met, could trigger a mandatory prepayment of the borrowings. The operating cash flow estimates used to establish the EBITDA maintenance covenants are subject to a number of assumptions about Palco's future operating cash flow and actual results could differ from these estimates. Accordingly, the availability of these funds to Palco are dependent on Palco's ability to harvest adequate timber on the Company's timberlands and reduce operating costs.

In the event of a Company default under the Indenture or a future Palco liquidity shortfall, the Company and Palco could be forced to take extraordinary actions, which may include: reducing expenditures by laying off employees and shutting down various activities; seeking other sources of liquidity, such as from asset sales; and seeking protection by filing under the Bankruptcy Code. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

On February 7, 2005, Moody's lowered the ratings on the Class A-1 Timber Notes from A1 to Baa2; the Class A-2 Timber Notes from A3 to Baa3; and the Class A-3 Timber Notes from Baa2 to Bal. On April 7, 2005, S&P announced that it had further lowered its ratings on all classes of the Timber Notes to CCC–. On December 8, 2004, S&P lowered Palco's credit rating from B- to CCC+ and on April 7, 2005, S&P announced that it had further lowered Palco's credit rating to CCC- (which rating it affirmed on April 28, 2005). As a result of the S&P credit actions, Palco may be required to post a security deposit for workers compensation liabilities in July 2005 in the amount of $9.9 million. If Palco's credit rating is raised to B- or better, or if a waiver of this requirement is allowed under applicable law, then posting of such a security deposit may not be necessary. There can be no assurance that such a security deposit will not be required. Palco management is also evaluating whether other potential obligations or unanticipated adverse financial consequences may result from the S&P credit actions described above.

The Company's Line of Credit allows it to borrow up to one year's interest due on the Timber Notes. On June 20, 2003, the Line of Credit was extended to July 7, 2006. At or near the completion of such extension, the Company intends to request that the Line of Credit be extended for an additional 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. At December 31, 2004, the Company could have borrowed a maximum of $57.1 million under the Line of Credit, and there was $18.2 million outstanding under the facility. At March 31, 2005, the maximum availability under the Line of Credit was $55.9 million, and there were $40.4 million in borrowings outstanding under this facility.

On the January 2005 note payment date, the Company used the Line of Credit to pay all of the $28.5 million of interest due ($26.3 million net of interest due in respect of Timber Notes held by the Company). The Company repaid $10.6 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

The Master Purchase Agreement between the Company and Palco (see Item 1. "Business—Operation of Company Timberlands" of the Form 10-K) contemplates that all sales of logs by the Company to Palco will be at fair market value (based on stumpage prices) for each species and category of logs. The Master Purchase Agreement provides that if the purchase price equals or exceeds the SBE Price and a structuring price set forth in a schedule to the Indenture, the purchase price is deemed to be at fair market value. If the purchase price equals or exceeds the SBE Price, but is less than the structuring price, then the Company is required to engage an independent forestry consultant to confirm that the purchase price reflects fair market value. In December 2004, the State Board of Equalization adopted the new Harvest Value Schedule for the first half of 2005. The prices published in that schedule (which exceeded the applicable structuring prices) reflected a 14.3% increase in the SBE Price for small redwood logs and a 12.5% increase for small Douglas-fir logs from the prices published for the second half of 2004.

Capital expenditures are estimated to be between $8.3 million and $8.9 million for 2005 (subject to available cash).

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet financing or unconsolidated special purpose entities. The Company does not use derivatives for any of its treasury or risk management activities.

Trends

See Note 3 and Part I, Item 2. "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Financial Condition and Investing and Financing Activities" for information regarding various regulatory, environmental, litigation and other matters which have caused and are expected to continue to cause delays in the approval of the Company's THPs and the ability to harvest on THPs once they are approved, as well as adverse impacts on harvest levels and timber harvesting and other costs.

Critical Accounting Policies and Estimates

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" of the Form 10-K for a discussion of the Company's critical accounting policies. There have been no material changes in the Company's critical accounting policies and estimates provided in the December 31, 2004 Form 10-K.

New Accounting Pronouncements

See Note 1 for a discussion of a new accounting pronouncement and its potential impact on the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in interest rates under the Line of Credit. As of March 31, 2005, there were $40.4 million in borrowings outstanding under the Line of Credit. Based on the amount of borrowings outstanding under the Line of Credit during the three months ended March 31, 2005, the impact of a 1.0% 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 evaluation, the Company's Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2005.

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

a. Exhibits:

*10.1 Engagement letter, dated March 31, 2005, between the Company and UBS Securities LLC, together with an attached Indemnification Agreement

* 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: May 9, 2005

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

APPENDIX A

Glossary of Defined Terms

Bankruptcy Code: the U.S. Bankruptcy Code

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

Britt: Britt Lumber Co., Inc., a wholly owned subsidiary of Palco

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

California Senate Bill 810: Bill which became effective January 1, 2004 providing regional water quality control boards with additional authority related to the approval of THPs on land within impaired watersheds

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

CWA: Federal Clean Water Act

EBITDA: As defined in Section 1.01 in the Revolving Credit Facility and Term Loan which, among other things, excludes the results of the Company

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: Environmental Protection Information Association

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.* filed 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) filed in U.S. Court for the Northern District of California against the Palco Companies and two federal agencies

FASB: Financial Accounting Standards Board

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

Form 10-K: Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2004

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 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)

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

Master Purchase Agreement: Agreement which governs the sale of logs to Palco by the Company

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

Moody's: Moody's Investors Services

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

Option A Plan: Palco's plans for complying with California's sustained yield requirements, which have been approved by the CDF

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

Palco Companies: Palco, Scotia LLC and Salmon Creek, collectively

Palco Credit Agreement: Palco's revolving credit facility with a bank which provided for borrowings up to $30.0 million based on certain collateral balances, which was terminated in connection with the closing of the Revolving Credit Facility and Term Loan

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

PSLRA: Private Securities Litigation Reform Act of 1995

Revolving Credit Agreement: Agreement evidencing the Revolving Credit Facility

Revolving Credit Facility: $30 million revolving credit facility evidenced by the Revolving Credit Agreement dated as of April 19, 2005 among Palco and Britt, as borrowers, and Credit Suisse First Boston

S&P: Standard & Poor's Rating Services

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

SFAS No. 153: "Exchange of Nonmonetary Assets," an amendment of APB Opinion No. 29

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

Term Loan Agreement: Agreement evidencing the Term Loan

Term Loan: $35.0 million term loan evidenced by the Term Loan Agreement dated as of April 19, 2005 among Palco and Britt, as borrowers, and the CIT Group/Business Credit, Inc.

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

Trustee: the trustee under the Indenture

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) filed in the Superior Court of Humboldt County, California

WWDRs: Watershed-wide discharge requirements