

## Pacific Lumber Co., Now Humboldt Redwood Co., Has New Owner

**A**fter a lengthy trial in a US bankruptcy court, Pacific Lumber Co. (Palco), a 145-year-old firm in northern California, has a new owner and a new name. In July, Judge Richard M. Schmidt ruled in favor of a joint plan by Mendocino Redwood Co. (MRC) and Marathon Structured Finance Fund LP, a Palco creditor, to assume control of Palco's 220,000 acres of forestland, mills, and Scotia, the company town.

MRC-Marathon paid Palco's other creditors \$517 million to consummate the deal. On July 31, MRC rechristened Palco as Humboldt Redwood Co. (HRC) and began hiring nearly 250 workers for the mills and forestry operations. Many of those hired were former Palco employees.

Palco has been the focus of numerous protests by environmental activists since a hostile takeover of the company in 1986 by Maxxam Corp., a Houston-based holding company (see "Court to Decide Fate of Pacific Lumber's Lands, Mills," March 2008).

Judge Schmidt cited MRC's record of sustainable forest management as a key factor in his decision. MRC, based in Ukiah, California, owns 228,800 acres and operates a 60 million-board-foot (MMBF) redwood mill. The Forest Stewardship Council (FSC) has certified its forests since 2000. Palco's lands were certified under the Sustainable Forestry Initiative (SFI) in 2006.

"Over the past 10 years, MRC successfully managed its forest to a high standard of environmental stewardship as measured by specific ecological progress in the woods and public acceptance of its practices," wrote Schmidt. "From an ecological perspective, for example, MRC's standing conifer timber inventory consisting of redwood and Douglas fir has increased by more than 25 percent, or 600 MMBF"

During the trial, which began in March 2007, Judge Schmidt considered Palco's own reorganization plan, the MRC-Marathon plan, and a plan from a group of Palco creditors that proposed selling Palco's lands, which the group held as collateral, to pay off the company's debt. Sierra Pacific Industries, which owns about 1.7 million acres of forestland in California, joined the creditor group with a last-minute bid to buy the Palco mill and 32.5-megawatt co-generation power plant.

A key issue in the trial was the value of the land and timber. The creditor group claimed that it could sell the property for \$603 million, far less than the \$800 million owed by Palco, but more than the \$517 million MRC-Marathon paid to the group.

"After carefully reviewing all the expert testimony as to value, the Court finds that the value of the timberlands is not more than \$510 million," wrote Judge Schmidt in his ruling.

"I think that was a heck of a good price, given the market and the restrictions on harvesting under all of the regulatory restrictions on the property," said James Able, a consulting forester and SAF member based in Eureka, California.

Under a 1999 habitat conservation plan, about 60 percent of Palco's timber volume was made off limits for harvesting, according to the company. Able said MRC is a good fit for the Palco lands because it has experience in dealing with California's stringent forest-practices rules and environmen-



Terry L. Spivey, Terry Spivey Photography Bugwood.org

**Together, Mendocino Redwood Co. and Humboldt Redwood Co. will own nearly 450,000 acres of redwoods in northern California, second only to the 460,000 acres owned by Green Diamond Resource Company.**

tal regulations.

"MRC is a really good company," Able said. "They have been good to their employees, and they have a good feel for doing the right thing for the land. Obviously, that mill capacity is very important to the county and to the region—the redwood industry needs to maintain a certain amount of market share."

The nearly 450,000 acres owned by MRC and HRC make the sister companies second only to Green Diamond Resource Company, which manages 460,000 acres that it purchased in 2006 from Simpson Timber Co.

Ken Fulgham, chair of the Department of Forestry and Watershed Management at Humboldt State University in Arcata, said both companies' forest practices are admirable.

"It's too soon to tell, but if Mendocino Redwood is able to translate its land management onto the lands it's acquired, then it bodes well for the North Coast," he said. "We already have great stewardship on the lands managed by Green Diamond, which is sustainable-resource-oriented. If Mendocino Redwood follows that pattern, it's going to be a new day for the redwood timber industry."