



The Pacific Lumber Company
P.O. Box 37 Scotia, CA 95565

September 11, 2003

Dear Employees and Retirees:

First, I hope the 2,500 employees, retirees, and families who attended this year's PALCO family picnic enjoyed themselves. I want to personally thank the many of you who took the time to call, send me a note, a thank you card or an email to let me know you enjoyed yourselves. One kind person even delivered a creative book of photos from the event. I would list your names but I do not want to embarrass anyone. My very special thanks go to John Broadstock and crew, Ron Eldridge and crew, Kathy Wigginton, Mike Fuller, Steve Youkey, Sam Bartlett, Jim Barsanti, Brian Brodt, the Scotia Band, and the Scotia Volunteer Fire Department for making this a very successful picnic. I also want to thank our many vendors who helped us with this year's event. It was a lot of fun, and the committee has already started planning next year's picnic.

I have struggled with this employee letter probably more than with any other I have written over the past two years. I suppose it has something to do with the fact that we are in the midst of several very important legal battles with our opponents in the DA's office, with the EPIC environmental group, and with the North Coast Regional Water Quality Control Board, with no end in sight and so much at risk – not just in our Company, but in our community that depends on our existence.

That is why I want to start this letter with something I consider very important – Character does count!

I have recently been touched by a series of events that have inspired me to address the importance of character and integrity. Much has been written about qualities of great leaders which include wisdom, trustworthiness, respect, fairness, caring, fortitude, and many others. I want to address what I believe is a real character flaw that has overtaken our society and seems to be very alive and well here in Humboldt County. That flaw is "the lack of integrity." Webster defines integrity simply as: "*strict personal honesty; incorruptibility; an unimpaired soundness; the quality or state of being complete or undivided; being ethical.*"

When I think about lack of character, I think about several things – having sat through six days of Judge Golden hearings and watching the lies, false innuendos, and myths promulgated by our opponents and the same group of characters observing the hearings – the same can be said for those Freshwater residents and their lawyers who extorted money from the Company in a lawsuit we settled last year, only to turn around and continue to attack and malign the Company in every forum possible. We recently learned that they are trying to get other local residents to join in new lawsuits and attacks against the Company. I was recently briefed on the August 26 Regional Water Quality Control Board meeting where the regional staff and their science team made a presentation that lacked scientific credibility and showed their continual bias against the Company, including the early decisions of the DA's fraud case against the Company that remain before Judge Wilson. You cannot help but see the same negative trend, as the DA would like to force us to settle with their own version of extortion with a baseless case against the Company

I was, however, positively energized when I received several calls and a visit from several senior citizens who were past residents of Freshwater and Elk River drainages. They voluntarily stepped-up and told me that they were tired of seeing the lies being spun by our opponents about the flooding and silt situation in both drainages that was being blamed on PALCO. They said that similar flooding occurred at least two to three times a year when they were growing up there in the 30s and 40s, and that the silt has been there from the beginning. In their judgment, PALCO was not the cause, and they were willing to testify on our behalf. We owe them a thanks, but it was their integrity that impressed me the most.

Much has been written about qualities of great leaders which include wisdom, trustworthiness, respect, fairness, caring, fortitude, and many others. I want to address what I believe is a real character flaw that has overtaken our society and seems to be very alive and well here in Humboldt County. That flaw is "the lack of integrity." Webster defines integrity simply as: *"strict personal honesty; incorruptibility; an unimpaired soundness; the quality or state of being complete or undivided; being ethical."* Where does character come from? No one is born with good character. It's not hereditary. Character has to be developed. We are all born with a potential for good character. Let's all agree to keep our character and integrity in tack even in the face of the lies and innuendos against us. The only conclusion I can reach as to why they continue their attacks against us is that they lead empty lives and need to put blame on everything around them in order to negatively impact those that are happier than them. This gives them power with their constituents and importance in the eyes of their friends and other PALCO haters. It is not about the environment or any other good cause. It is strictly a "get PALCO" attitude and "empty vessels" of life.

Let's take a closer look around the Company and what strong character can accomplish:

- I am sure you have each seen the PBS TV show "California Gold." Just last week they came to record a show about "lifestyle in Scotia." This will air sometime next year. We will alert you to the final date when we get word.
- On Saturday, September 6, I attended the fall meeting of the Cattlemen's and Cattlewomen's Association. I was struck by the strong level of common interests and concerns that we and the ranchers share about issues facing us and them, including the Regional Water Board issues and science reports, Coho listing, watershed analysis, the Burton Bill 810 currently moving through Congress, and getting THP permits approved for harvesting.
- Did you know that we continue to keep the PL cattle brand current and registered, and it is one of the oldest in the state?
- We are planning a new series of retiree meetings sometime in November. Since the new redefined benefits and premiums only started on May 1, we felt we needed to wait long enough to track some actual usage data. This will enable us to have a more meaningful discussion and possibly make new recommendations.

September 11, 2003

Page 3

- We are starting a series of leadership training seminars next week as we continue to develop our future leaders of tomorrow.
- Senator Burton has received the 41 votes needed to pass SB810 which, if the Governor does not veto it, will give the Regional Water Quality Control Board veto power over all THP approvals. Our opponents are also working on AB1764 which, if approved, will increase our timber yield tax from 2.9% to 6.9% which increases our tax bill by nearly \$3 million per month. This will have a huge negative impact on PALCO and the entire industry. Let the Governor's office hear from you to veto these two bills. You can leave a message at 916-445-2841. Take the step to make the call. We all need your help.
- Year-to-date lumber operations are doing very well. Lumber production is nearly 10 million board feet ahead of plan; unit costs are \$20 below plan; redwood prices are \$10 higher than plan; and shipments are 5 million board feet ahead of plan. Britt Lumber is having a great year as well with product pricing, production, and shipments all ahead of plan.
- Congratulations to Scotia Value-Added for a financially positive month. During the last several months, SVA has made substantial swings to positive levels in shipments, cost control, and production levels. The end result is all good. Great job to the Sales Department for their additional focus on SVA products.
- Forest operations have been struggling over the past several months with harvest levels falling significantly behind. Our log decks are just now beginning to improve as the logs are beginning to flow once again.
- We quietly removed three more "tree-sitter" platforms and their associated support gear last week.
- Judge Golden hearings came to a close on September 4. Messrs. Anthony, Horner, Clark, Barrett, and Kate Sullivan from PALCO, Steve Will of Wills Logging and Trucking, and Brent Hawkins of Samoa Pacific deserve special thanks from all of us for their great testimony during these hearings. Our legal team, headed by Ned Washburn and including Frank Bacik, Andrew Brimmer, and Jared Carter, did an excellent job developing our strategy and laying out the arguments for the judge's consideration. Our testimony was extremely professional, full of real evidence, facts, and laws; our opponent's testimony was full of lies, innuendos, twisting of testimony, whining, and a juvenile understanding of our industry. We expect Judge Golden could issue his final decision on or before September 15, but for sure by September 30. Unfortunately, I have no predictions for the final outcome.
- The North Coast Regional Water Quality Control Board continued on their path of attacking PALCO and issued a new one-sided science report suggesting that our HCP, SYP, and the standard California Forest Practice Rules are not good enough to protect water quality anywhere in the state. We are having their report reviewed by other

September 11, 2003

Page 4

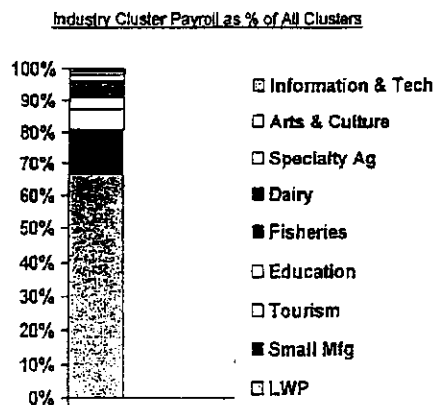
scientists, and I thought I would share some comments from a review by Dr. George Ice, Principal Scientist for the National Council for Air and Stream Improvement (NCASI):

"I found the ISRP Report to not fully represent the latest science of managing forest watersheds, dismissing effective management and mitigation practices as inadequately tested. I challenge the North Coast Regional Water Quality Control Board to have a group of Grandmasters of Watershed Management, many of whom are retired university and USDA Forest Service employees, develop their reaction to this report. Frankly, I think they would be insulted that the progress made with forest practice regulations, watershed assessments, habitat conservation plans, and sustained yield plans, is not recognized."

In summary, let me reiterate that we continue to make great strides in all operational areas. I am very pleased with the efforts being made throughout the Company. We are moving from being good to becoming excellent. The quality of our efforts shows itself in our products, our internal and external communications, our team work, our attitudes, and our respect for each other. We are improving everyday.

We often hear about how important our Company and our industry are to Humboldt County, but I wanted you to see first-hand the chart (below) that was developed by the county Economic Development group. It demonstrates that lumber and wood products (LWP) represent 67% of the total payroll in the county, and studies have shown that our industry economically contributes over \$400 million each year to the county.

Among clusters, LWP comprises 67% of total payroll, followed by Small Mfg and Tourism



We are a very large part of that total and are very important to this county. The challenge remains very clear for our industry – it is one of survival. We are very misunderstood and not well respected. Large disconnects and misperceptions have grown inaccurately over the years. We acknowledge our inherent responsibility to the environment and to the plants, animals, and fish that occupy our lands and our related industries. We are unified on our position and strongly believe that our county can have a preserved forest for visitors and for attracting tourists while

September 11, 2003
Page 5

simultaneously have an active environmentally-managed forest which can support and remain a major base industry in our county. I don't think most people living in Humboldt County today really understand how profoundly their lives will be changed if our opponents are successful in shutting us down. I continue to be amazed how our elected officials and leaders can sit by and watch rural America be sacrificed at the hands of environmentalists and those indifferent citizens who want rural America as their private vacation spot. This is nothing more than a clash of lifestyles and a head-on collision between two conflicting philosophies - a philosophy of anti-growth, anti-government, anti-business who purports a philosophy to preserve forests with no management, and a belief that no tree on the planet should be harvested, versus a progressive philosophy that believes in balance and an ability to manage our forests in a long-term sustainable manner that can benefit both society and the environment simultaneously.

Let me conclude by telling you that I'm incredibly proud of our Company and each of our employees. On October 1, I will be celebrating my second year anniversary with PALCO. The time has gone by fast, and we have made a lot of progress. We have been through earthquakes, layoffs, restructuring, floods, legal attacks, threats, and recessions over the years. Yet we are still standing and we intend to remain so, no matter who attacks us or who issues a new lawsuit. Our opponents attack us because of what we stand for. We are strong believers that science should drive policy, and we are the leaders in that field. We have proven that Humboldt County can have both a beautiful preserved redwood forest and a healthy redwood forest products industry based on sustainable managed forests simultaneously. This is our belief and we are not going to change. We stand tall, strong, and proud of our accomplishments. We are determined to not only protect ourselves, but we are determined to protect our natural resources by spreading our success with sustainability throughout the region, the state, and the nation. One day soon, we will have peace in Humboldt County, and we will gain the respect we deserve.

Yes, we have been through some tough times, but these same tough times have built our character and we have kept our integrity throughout it all. Our values remain strong; our employees remain courageous, compassionate, and we have a lot of perseverance. I love being the president of this great Company which is one of the finest forest products company in the industry.

May God bless each of you and your families, and may God bless America.

Sincerely,

THE PACIFIC LUMBER COMPANY



ROBERT E. MANNE
President and CEO

REM:kw