



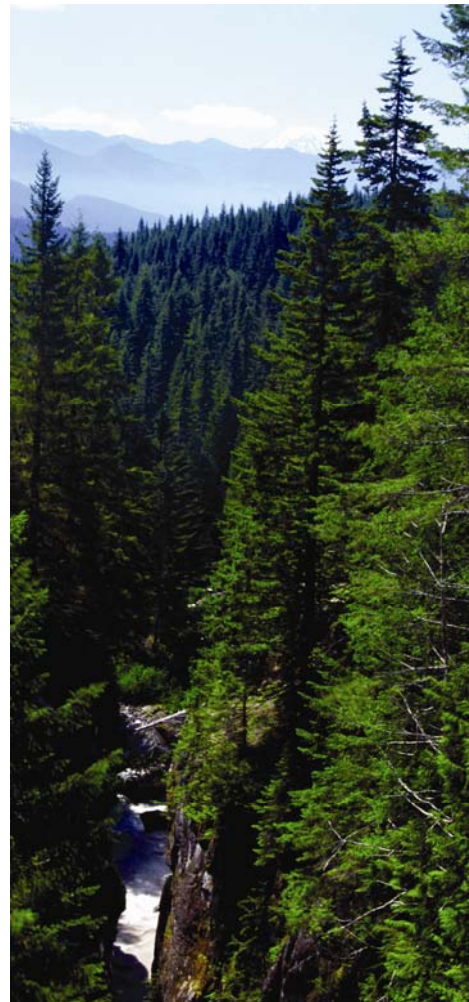
FOREST CAPITAL PARTNERS, LLC is one of the country's largest investors and managers of working forests for long-term sustainability. Owned and managed by principals who are both professional foresters and seasoned investment managers, Forest Capital is a leading grower of environmentally certified timber products and active participant in non-timber forest markets. We manage our forests under the sustainable forest management guidelines set forth by the Sustainable Forestry Initiative® (SFI).

At Forest Capital Partners, we aspire to be a leader in creating and capturing the full range of economic, social, and environmental values from working forests. As both investment manager and steward, we apply advanced technologies and discipline to practice sustainable forestry and create innovative ways to derive value from forests—ways that serve changing market needs while protecting the environment.

Creating the full range of values from our forests means considering the full range of opportunities, whether through timber sales or such non-timber offerings as alternative energy leases, resource development leases, and conservation easements. And because we hold a long-term view—as investors, fiduciaries, and neighbors—we believe in seeking value creation sustainably.

Our management strategy centers on disciplined operations—a focus that drives our management decisions on the approximately 2.1 million acres we hold in six states. Forest Capital Partners' Western Division comprises five regions and 1.1 million acres of timberland in Idaho, Washington, and Oregon. Our Eastern Division comprises two regions and 911,000 acres of timberland in Louisiana, Texas, and Minnesota.

Underlying our activities is our core value: earning and maintaining the trust and loyalty of our investors, customers, and employees, as well as of the conservation community and our neighbors, through performance, integrity and stewardship. This is a value we live by, as reflected in the strength of our business relationships and in our many community initiatives to preserve working forests for their social and environmental—not just economic—benefits.



For more information please contact Brian J. Kernohan at 208.859.2364.

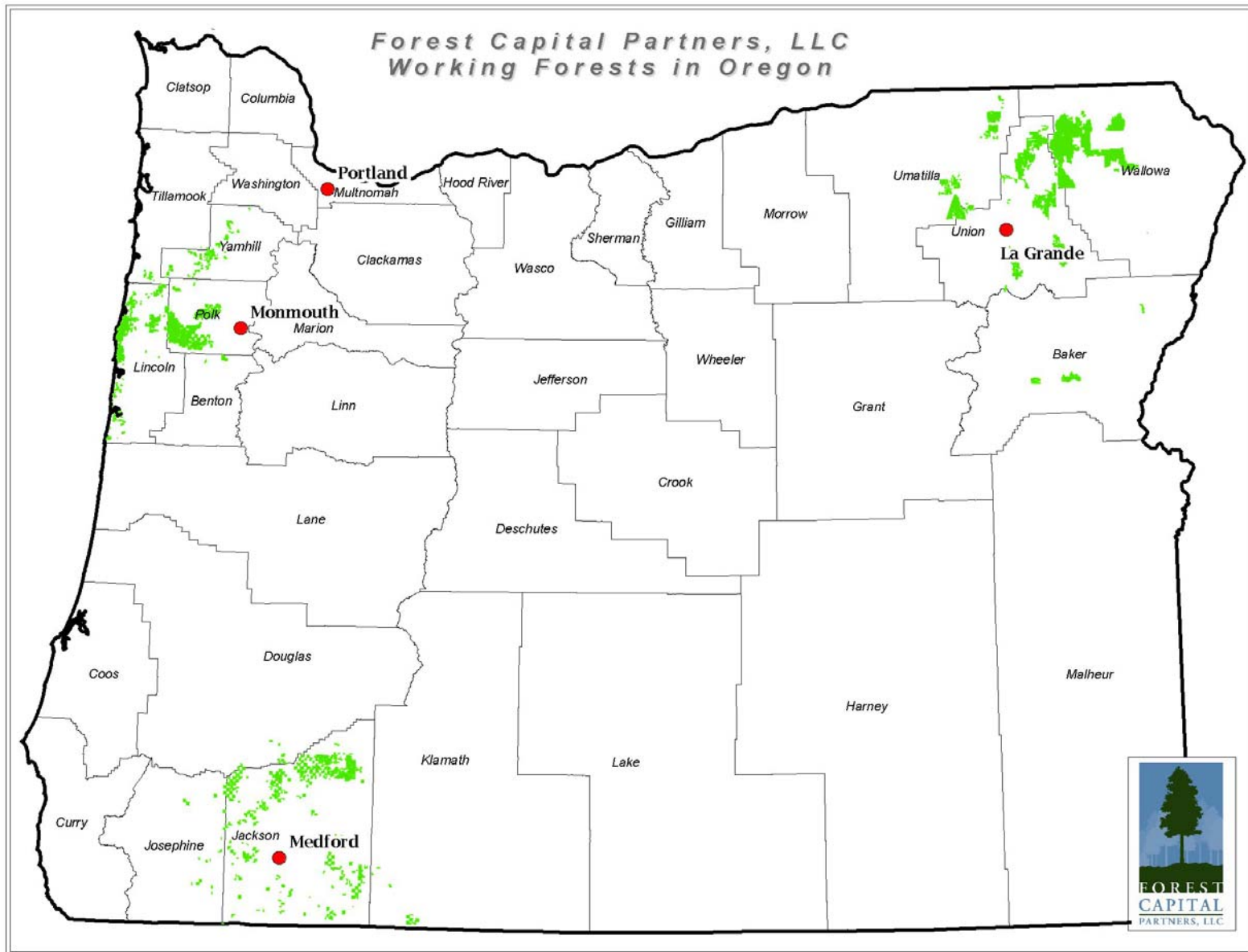


FOREST CAPITAL PARTNERS NORTHEAST OREGON REGION

As a private forest landowner and steward of working forests in northeast Oregon, we aspire to be a leader in creating and capturing the full range of economic, social, and environmental values from our forests—while earning and maintaining the trust and loyalty of our investors, customers, and employees, as well as of the conservation community and our neighbors, through performance, integrity and stewardship.

- Forest Capital Partners is the second largest private forest landowner in Oregon, with approximately 302,000 acres in northeast Oregon.
- The local workforce is bolstered by Forest Capital Partners' 15 employees and 18 local contractors—including 105 contract employees—generating a local payroll of over \$2,000,000 and contractor payments of approximately \$16,000,000 annually.
- Each year, the company harvests 55,000 – 90,000 MBF of timber in northeast Oregon and pays \$850,000 in state and local taxes.
- All forest management activities are conducted according to the sustainable forest management guidelines set forth by the Sustainable Forestry Initiative® (SFI) and the progressive regulations of the Oregon Forest Practices Act.
- Primary management objectives are to (1) sustainably enhance forest productivity and health while creating environmental benefits and (2) provide economic benefits to the company, mills, and community based on long-term sustainability.
- Timber from Forest Capital Partners' working forests supplies eight forest products mills in the region.
- Forest Capital Partners reforests approximately 4,000 acres annually in northeast Oregon.
- Primary commercial species in northeast Oregon are Douglas-fir and ponderosa pine with a secondary component of western larch, grand fir and spruce resulting in a forest inventory of 1.4 billion board feet.
- Recreational opportunities throughout Forest Capital Partners' working forests include hunting, fishing, hiking, cross-country skiing, and recreational vehicle use.

For more information please contact John Warness at (541) 962-2071



Preserving Working Forests A Landowner's Perspective on Sustainability

Matthew W. Donegan, Co-President
Forest Capital Partners, Portland, Oregon

The forestry sector has changed in several important ways over the past two decades. Global competition has increased very significantly, causing prices for lumber, plywood, and paper to fall by 34%, 31%, and 45%, respectively since 1980 (adjusted for inflation). In many regions of the United States the manufacturing base has contracted, imposing downward pressures on timber prices, while the costs associated with forestry regulations and other social demands have climbed. As the nation's population continues to escalate, pressures on forestry profitability encourage landowners to sell, fragment, and potentially convert forest land to alternative land uses.

Financial incentives, as measured by the ratio of long-term hold values versus short-term sell values, generally encourage forest fragmentation and conversion to non-forest uses. Long-term hold values reflect an increasingly competitive, global forest market witnessing substantial technological advancements. Long-term hold values also reflect the diminution of forestry profitability resulting from regulations. Fortunately, globalization, technology, and non-timber resources, including carbon, all have the potential to strongly increase working forest values - through the enactment of modern, incentive-based policies as have proven successful in many states.

Fortunately, the forestry sector has progressed; presenting many important opportunities. The demand for renewable energy is creating new markets for timber products alongside growing demand for sustainably managed, certified forest products. Asia's demand for building products and paper is rising and demand for non-timber resources (commonly known as "ecosystem services"), including the sequestration of atmospheric carbon, is creating financial opportunities for forest landowners. Finally, forest science is enabling foresters to grow more wood, more quickly, in a more environmentally responsible manner.

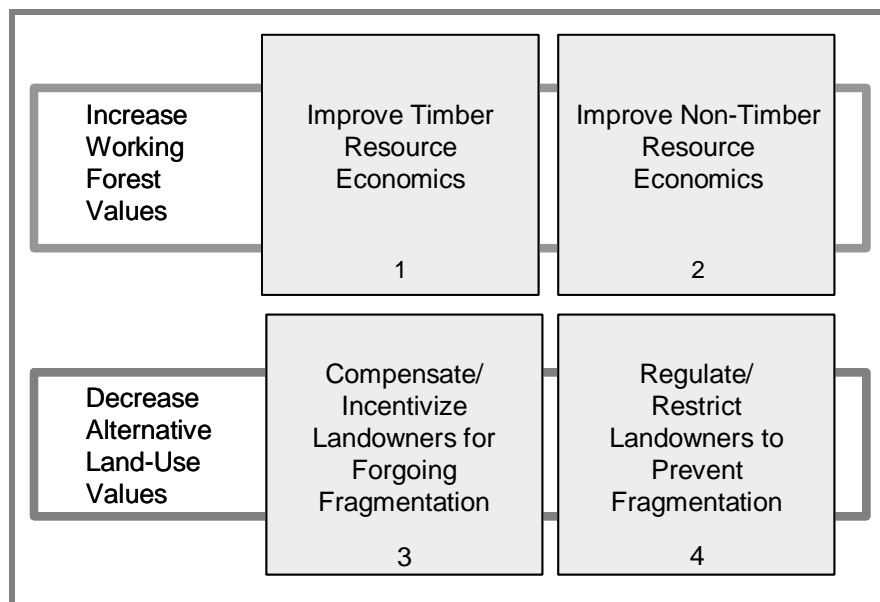
As importantly, forest conservation continues to evolve in both concept and practice. The public values provided by working forests are increasingly understood - indeed, many prominent conservation organizations now actively manage working forests to support environmental, social, and economic objectives - and conservationists across the country are working with forest businesses and policymakers to protect working forests.

Over the past decade, the interests of forest businesses and conservationists have converged to a large degree. Forest businesses increasingly emphasize sustainability, validated through third-party certification. Conservationists, meanwhile, increasingly protect working forests, advocate responsible timber harvesting, and, indeed, conduct timber harvesting on their own holdings specifically to achieve conservation objectives. Priorities for policymakers are to recognize the substantial public benefits provided by sustainably managed working forests; eschew dated, polarized positions; and enact innovative policies to protect working forests amid substantial economic incentives to fragment and convert forest lands to alternative uses.

Conservationists and businesses alike recognize that to protect forests the economic values of forest land use must equal, or preferably surpass, the economic values of non-forest land use. Given the changes under way in the forestry and conservation arenas - representing threats as

well as opportunities to the economic values of forests - Forest Capital Partners has proposed a four-part strategy for preserving working forests throughout the United States. This strategy includes: (1) increasing working-forest values by improving timber resource economics; (2) increasing working-forest values by improving non-timber resource economics; (3) decreasing alternative land-use values by compensating and/or incentivizing landowners for forgoing land fragmentation; and (4) decreasing alternative land-use values by regulating and/or restricting landowners to prevent fragmentation.

The underlying principle of this four-part framework is to narrow the gap between forest and alternative land use values through a combination of strategies: strategies that both *increase forest land use values* (through improving timber resource economics as well as non-timber resource economics) and *decrease alternative land use values* (through a mix of measures, some that compensate landowners for forgone values, others that do not). The following figure shows the framework and its four component strategies.



Strategy 1 - Increase Working Forest Values by Improving Timber Resource Economics. This strategy largely seeks to increase global competitiveness through investments in the nation's forest resources. Current opportunities include ensuring adequate timber supply, developing new timber markets, increasing research & development, supporting forest certification, and executing land exchanges.

Strategy 2 - Increase Working Forest Values: Improve Non-Timber Resource Economics. This strategy seeks to provide financial incentives for the production of non-timber resources, augmenting timber production as the economic engine encouraging forest land retention. Current opportunities include carbon sequestration and providing tax incentives (reductions, exemptions, rebates) for maintaining public recreation, wildlife habitat, wind, water, and other non-timber resources.

Strategy 3 - Decrease Alternative Land-Use Values: Compensate/Incentivize Landowners for Forgoing Fragmentation. This strategy seeks to compensate landowners for forgoing forest fragmentation and/or land conversion to keep large-scale working forests intact. Widely employed throughout the United States, it involves a voluntary transaction in which property rights are sold at market value. Transactions may be limited to the sale (or lease) of development rights, or extend to other rights, including public access or restrictions on management practices. Relative to outright public land purchases, this approach is far less expensive and maintains private land ownership, thus protecting property tax revenues.

Strategy 4 - Decrease Alternative Land-Use Values: Regulate/Restrict Landowners to Prevent Fragmentation. This strategy seeks to limit forest fragmentation and land conversion largely through regulations and legal restrictions. The most common example is to extinguish or restrict development rights through regulations (e.g., land use regulations).

There is no “silver bullet” for overcoming the financial incentives driving forest fragmentation and conversion. Effective protection will require an ongoing commitment to ensuring that forest values compare favorably with alternative land use values.

In summary, we would observe that, in conversations with other forest landowners (including families, forest businesses, and conservation groups) we are struck by the commonality of themes we hear with regard to loss of forest land. The most prominent of these themes is the fervent desire to continue to own and manage working forests - despite the escalating economic and regulatory incentives to sell and convert forest land. Given this strong predisposition toward the preservation of working forests we are optimistic that, through modernizing and diversifying its approach to land use, the United States can effectively protect this valuable component of its natural landscape.