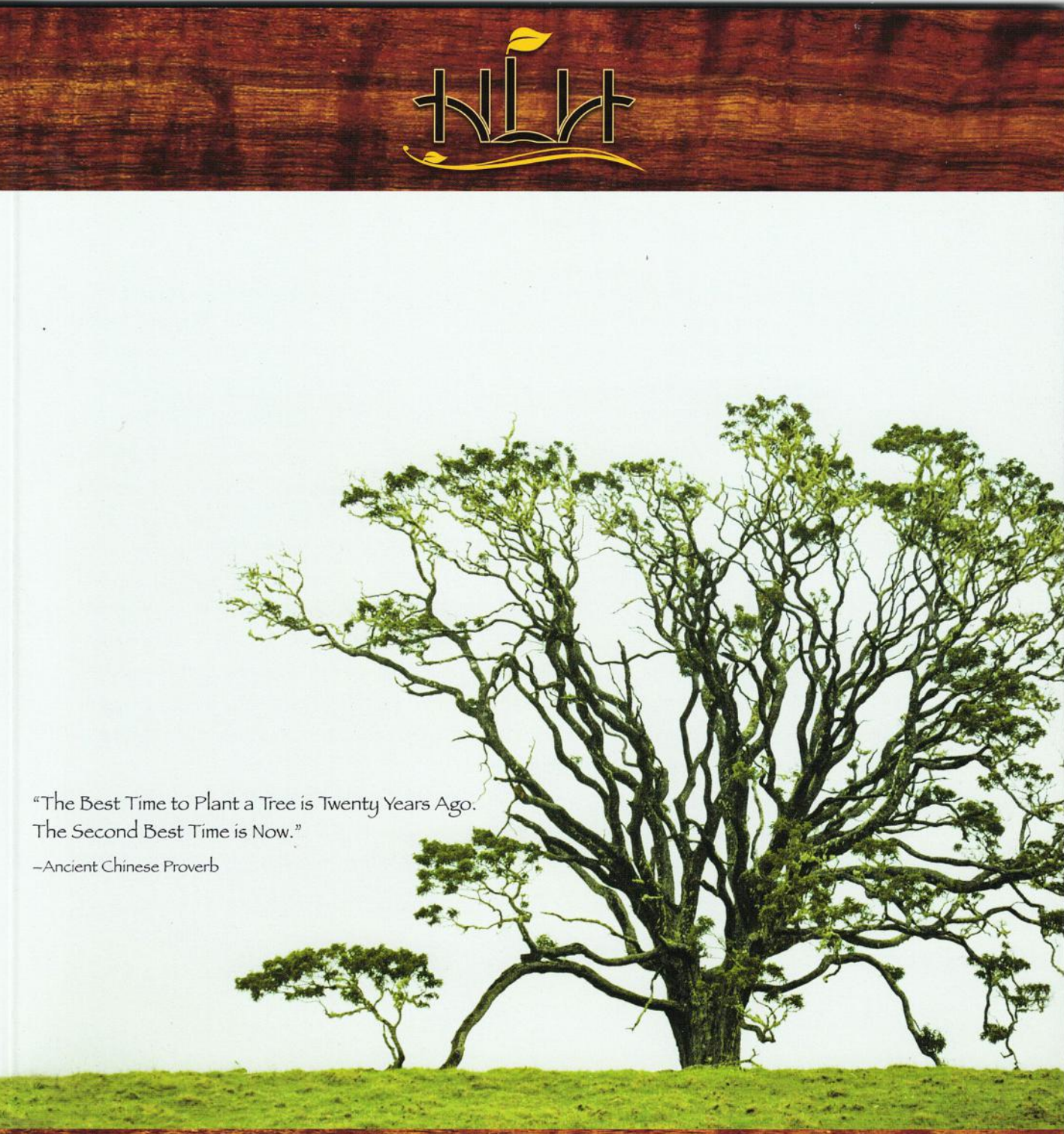

"The Best Time to Plant a Tree is Twenty Years Ago.
The Second Best Time is Now."

–Ancient Chinese Proverb

Hawaiian Legacy Hardwoods

Table of Contents

Planting a Sustainable Future 3
Why Trees? 3

Tropical Rainforest 4
Deforestation 4
Carbon Credit Market 5
Trends in Greenhouse Gas Mitigation 6
Carbon Credits and the Tree Owner 7
Tropical Reforestation vs Temperate Reforestation 8
Your Personal Carbon Footprint 9

The Opportunity 10
About Tropical Hardwoods 10
About Koa 11

Projections 12
Deforestation Trends 12
Historical Prices 12
Assumptions and Projection Notes 13
Carrying Capacity 15
Cost & Value of Early Harvest Timber 15
Lumber Value Increase Rate 16
Summary 16
Koa Projection Tables 16

Environmental Risk Factors 19
Hawaii Island Annual Rainfall Map 19
Hawaii Island Lava Risk 19
Hawaii Island Earthquake Risk 20
Central Pacific Hurricane Tracks 20

Keynote Address of Senator Daniel K. Akaka 22

About Us 25
Once in a Generation 25
Credentials 26
Our Unique Technologies 26
Our Commitment 27
HLH Management 27
HLH Advisors 37

Frequently Asked Questions 40

Placing Your Order 44

Quotes 48

The mission of Hawaiian Legacy Hardwoods is to preserve a source of fine tropical hardwoods for the future. In particular, our goal is to see that the unique woods of Hawaii, like Koa, are not harvested to extinction. By giving individuals, businesses and organizations the opportunity to own these special trees and the lumber they will produce, we hope to broaden the awareness and support necessary to foster forest stewardship. Plantation raised trees take pressure off the old growth wilderness so that future generations are not deprived of their treasures.

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HLH Overview

Scan QR codes for video

Planting Season

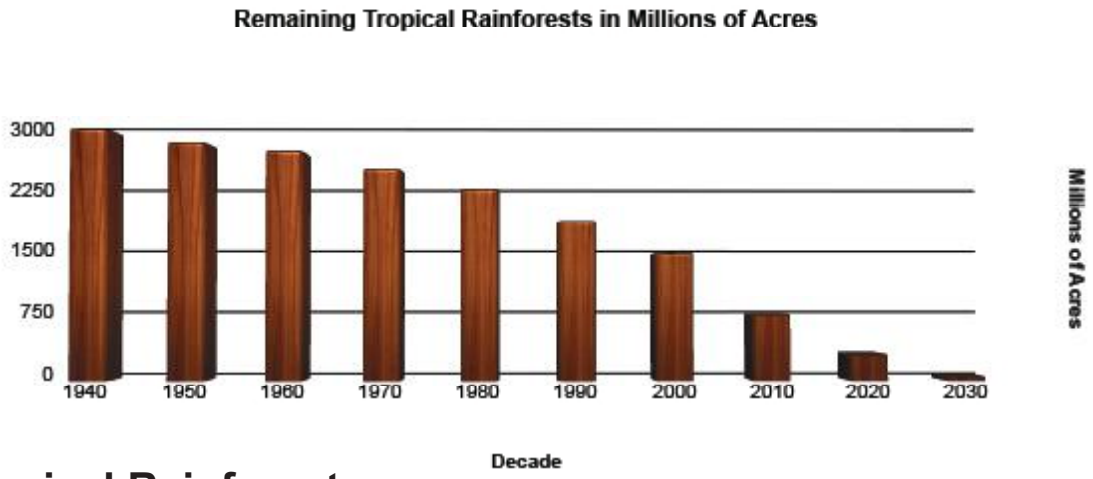
Planting a Sustainable Future for *You*

Hawaii is the only location in the United States capable of growing a wide variety of tropical rainforest hardwoods. Over the past 100 years, sugar cane and pineapple fields replaced hundreds of thousands of acres of Hawaiian forests. When it became cheaper to grow sugar cane and pineapple in undeveloped countries, the fields were abandoned with the former forests lost to the past.

Working with land owners who take their stewardship seriously, Hawaiian Legacy Hardwoods is helping to bring the tropical rainforest back to America. HLH is master-planning a 2,700 acre sustainable forestry project on Hawaii Island; growing rare tropical hardwood trees for investors all over the world; reducing global warming through carbon sequestration while providing our investors with the opportunity for substantial profits.

Why Trees?

All too often we are told that caring for the planet requires financial sacrifice. In cultivating hardwood forests, we have found the opposite to be true. A growing number of investors are realizing that preserving rare hardwoods for future generations makes good economic sense. Historical data validates returns from tropical hardwoods have outperformed those of stocks, real estate and other commodities for decades. Unlike most common investment vehicles which are affected by economic cycles, returns are not related to market movements but rather the laws of supply and demand.



Tropical Rainforest

Deforestation

There are many forces leading to our current deforestation crisis. Tropical forests are often in the poorest of countries and lumber is a cash crop that can quickly bring in much needed foreign exchange dollars. The population of the world has doubled since the 1950s with the majority of that growth in tropical areas. All of these people need land for housing and agriculture. The worldwide demand for beef has also lead to the clearing of vast acreage for grazing. In an effort to stave off another environmental risk, the world is attempting to shift from fossil fuels to biofuels. This is furthering the deforestation problem as land is being cleared for palm oil plantation.

Tropical Rainforests are disappearing at an alarming rate. Unlike oil and natural gas, we are not discovering new reserves. Plantation raised trees currently supply only 1–2% of the tropical hardwood market. Even with a complete shift in the policies of the governments where these trees are grown, it is unlikely that we will see more than a few percent of our current lumber needs met by plantation grown trees. With our current deforestation rate, most estimates indicate a global shortage within the next 12 years. This will put tremendous upward pressure on the price of tropical hardwood lumber.

A century of ranching tradition makes room for the return of the forest

Carbon Credit Market: Carbon Dioxide & the Global Warming Debate

It would be hard to live in the modern world and not have heard the terms Greenhouse Effect and Global Warming. The debate about whether the activities of industrialized man are a major cause of global warming is far from over. The scientific community and the environmental movement may argue over the magnitude of man's influence, but they broadly agree that we are changing the very climate of our world. The result of this process going unchecked will cause major disruptions to rainfall patterns, sea level increases and desertification of previously fertile regions. Whatever side of this debate you find yourself on, the political reality is that governments around the world are taking notice. It is evident that the increasing cost of excess emissions of greenhouse gases will be added to the cost everything.

Greenhouse gases are gases that when added to the atmosphere tend to trap the heat from the sun. This can lead to a gradual increase in temperatures and resultant changes in climate. Some of the better documented greenhouse gases are carbon dioxide, methane, nitrous oxide, and hydrofluorocarbons. The historical record for the increase in carbon dioxide in the atmosphere has been one of the best documented trends. The Scripps Institution of Oceanography and National Oceanic and Atmospheric Administration's research

laboratory, on the top of Mauna Loa on the Big Island of Hawaii, has been tracking these changes since 1958. In the graph located in the **Carbon Credits and the Tree Owner** section, you can see the saw tooth pattern of seasonal changes making up the relentless trend of increase in atmospheric carbon dioxide.

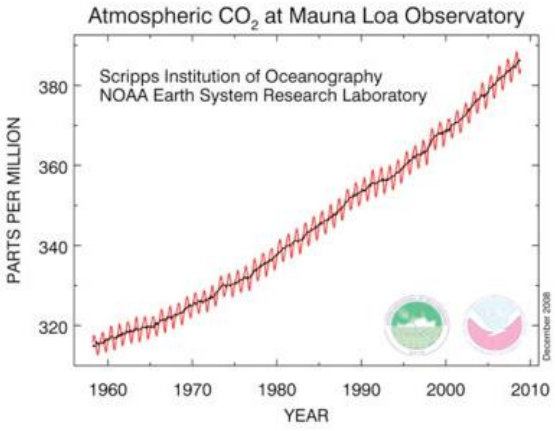
Carbon dioxide is added to the atmosphere by a wide array of processes, but the process most directly attributable to human activity is the combustion of fossil fuels. When we burn organic matter like oil, natural gas, diesel fuel, gasoline and coal for energy, we are taking carbon that has been stored in the earth for millions of years, combining it with atmospheric oxygen and releasing carbon dioxide into the atmosphere. There is little doubt that the growing energy demands of the modern world and the growing energy demands of developing countries will only accelerate this process.

Trends in Greenhouse Gas Mitigation

The cost to the economies of the world to attempt to reverse this trend is staggering, but the cost of doing nothing may be even greater. One of the recent attempts to deal with the issue was an international agreement know as the Kyoto Protocol. It was ratified by more than 170 countries and since its implementation in 2005 the European Union has moved to give it the force of law. The concept is evolving into what is being called Cap and Trade legislation. The concept is relatively simple. If you are a business that produces greenhouse gases as a waste product there will be specific limits on what you are allowed to produce. If you exceed those limits you must buy credits from others whose activities remove greenhouse gases from the atmosphere or reduce the greenhouse gases produced by traditional processes. This legislation is in a constant state of flux and hotly debated in governments around the world. Few would deny that it is the direction policy is moving. The recent elections in the United States suggest that Cap and Trade legislation is a lot closer to reality. Some have suggested that the trading in greenhouse gas credits will be one of the largest global markets. Much remains to be done to standardize the units and to certify the validity of any particular carbon offset.

Carbon Credits and the Tree Owner

The growing concern over global warming is very good news for the tree owner. When a tree grows it uses the energy from the sun to convert carbon dioxide from the atmosphere into cellulose and other organic compounds. The amount of carbon dioxide sequestered or tied up in this manner can be as enormous. When we destroy natural forests and burn the wood, we are releasing carbon dioxide into the atmosphere. By planting trees you are helping to offset this trend.



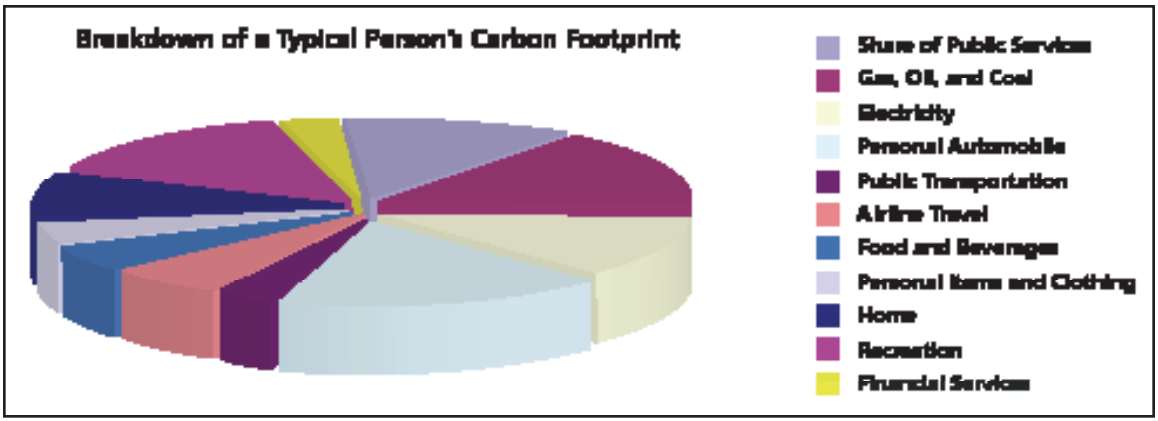
During the life of a tree, it can sequester many tons of carbon dioxide. In this regard, tree farms are more efficient at removing carbon dioxide from the atmosphere than mature forests. A mature forest is in balance with new growth being offset by decay processes. It is a huge repository of carbon, but not a highly active carbon sink. A tree farm on the other hand is managed to optimize the amount of carbon tied up in wood. An average piece of wood of any species is almost 50% carbon. When the wood grown is precious tropical hardwoods, the lumber and products made from this wood will be around for generations. It will be a very long time indeed before that carbon finds its way back into the atmosphere. In addition to the carbon sequestered into marketable lumber, the below ground wood in the form of roots, traps large amounts of carbon as well. Over the years, the leaf litter contributes back to the soil. Finally, the wood waste from harvesting and milling will be chipped and returned to the soil further increasing the organic matter content of the soil. It is impossible for us to predict what the future holds for the carbon credit markets, but any carbon credits generated by the lumber you derive from the sustainable growth of your trees are yours. You can actually become carbon neutral while profiting from the value of the wood your trees produce. For once you are not being asked to make an economic sacrifice in order to do the right thing for the planet.

A relatively simple calculation can help to clarify this. If you plant 100 koa trees, the anticipated yield over their 25 year growth and harvest cycle is in excess of 11,400 board feet. Koa weighs approximately 3.15 pounds per board foot. That makes the

yield about 35,340 pounds. If half of this is carbon you have trapped about 17,670 pounds of carbon. By doing this, your trees removed 33 tons of carbon dioxide from the atmosphere. A single planting of 100 trees will offset the carbon emissions of an average family for two years while still generating valuable hardwood lumber. In addition, all of the carbon left in the soil can be as great an offset to greenhouse gases as the lumber produced. Who says that going green can't be profitable?

Tropical Reforestation vs. Temperate Reforestation

There is a debate about the benefits of planting trees in temperate climates. Trees absorb the heat of the sun better than snow covered landscapes that reflect much of the suns rays back into space. The net benefit to global warming might be a mixed outcome at best. The situation is much different in the tropics. There is no snow to reflect the sun back into space under any circumstance, but by planting trees you can make a major impact on the carbon dioxide in the atmosphere allowing more of the heat from the sun to escape. Additionally, a tropical landscape covered in trees will have a higher level of cloud cover than an area cleared for agriculture. Those clouds also reflect sunlight back into space. Tropical tree projects generate a double benefit in the war against global warming.



Your Personal Carbon Footprint

Many people are becoming aware of the impact their lifestyle choices have on the environment. More and more businesses are becoming aware of the effect that their operations have on the planet as well. These socially conscious individuals and organizations are looking for cost effective ways to reduce the amount of greenhouse gases their activities generate and ways to offset the remaining greenhouse gas emissions that are a result of their activities. Most effective strategies have been a direct expense without the possibility of profitable return. Becoming a tree owner has the potential for profit while making a real contribution to the removal of greenhouse gases from the atmosphere. Tropical hardwoods are a near perfect form of this approach since the wood they produce goes into cherished articles of value that are passed from generation to generation.

The Opportunity

About Tropical Hardwoods

Hawaii is a unique ecosystem and according to The Bishop Museum in Honolulu, home to hundreds of endangered species. The Bishop Museum even refers to Hawaii as the "Endangered Species Capital of the World". Because Hawaii is the most isolated landmass on earth, it has evolved many species unique to these islands. One of the very unique plants of Hawaii is the magnificent Koa tree. Koa played a very important role in Hawaiian culture. The massive straight trees were the source of logs carved into voyaging canoes that became the Polynesian fleet navigating the Pacific a thousand years before Columbus discovered the new world. The wood was prized for paddles, construction, bowls, weapons and musical instruments. When it comes to tropical hardwoods, Koa is one of the most magnificent and is often referred to as the king of the forest.

When the western world discovered this magnificent wood, they applied western methods of harvesting—clearing 90% of the original forest. This resource was all but eliminated from lower elevations and the genetic diversity that once existed has been lost. The history and beauty of Koa is what started us on the path to forming Hawaiian Legacy Hardwoods. These incredible trees belong to all generations. Although Koa is unique to Hawaii, many other tropical hardwoods are endangered in their natural ranges. There are over 50 species of rare and valuable tropical hardwoods that will grow in Hawaii. With Hawaii's isolation many of the species that are threatened in their original habitat can find refuge in the fertile soil of this very special corner of the United States.

Hawaii is renowned for its micro-climates. With the consistent trade winds dividing the islands into windward and leeward sides you

have tremendous ranges of rainfall to select from. As home to the largest mountains on earth—from sea floor to summit—you have a tremendous range of elevations to choose from. With land ranging from millions of years old, with deep soil, to land forming today, you have a wide range of soil types within a short drive from each other. Hawaii is the perfect refuge to both preserve this heritage and cultivate a sustainable source for the dwindling treasure of tropical hardwoods.

About Koa

Koa (*Acacia koa*) is a native Hawaiian tree of exceptional beauty. Koa is so variable in its appearance as to defy classification. It can be everything from red to brown to golden and even ivory. The grain can be straight, but the most valuable koa wood exhibits a curly figure that creates the illusion that you are looking right through the surface. It finishes to a rich luster and depth that has made it a treasured resource for Hawaiian heirloom furniture, woodturnings, and sculptures.

The Hawaiian Islands were once blanketed in koa forests with the largest trees being sought out for dugout canoes. The wood was so prized that it was used for virtually everything in contact with the Ali‘i (Hawaiian royalty).

The trees reach heights of 100 feet and diameters of more than 4 feet. Koa is a nitrogen fixing tree and can often grow in soils too poor in nitrogen to support other species. This has allowed koa to colonize very thin volcanic soils preparing the way for other species. Mature trees have very little sapwood and are primarily high value heartwood.

Koa is extensively used by fine furniture makers, woodturners and sculptors in Hawaii, but its exceptional value as a tone wood has brought it to the attention of musical instrument makers world-wide. Hawaiian Legacy Hardwoods is committed to furthering the survival and availability of this fine wood for future generations.



Projections

Deforestation Trends

To meet the demand for tropical hardwood lumber, growing populations are under pressure to cut old growth forests for cash and to provide space for agriculture. The World Resource Institute has calculated the current rate of tropical rainforest destruction at 50 million acres a year. They also estimate that less than 700 million acres remain with growing global pressure to protect much of that resource. The confluence of these forces will create a global shortage within 12 years. Currently, tree farms and plantations supply only 1% of the tropical hardwood market. Even given the most optimistic projections, it is highly unlikely tropical hardwood farms will fill more than a few percent of the current world-wide demand.

Historical Prices

The rate of increase in tropical hardwood prices since records started being kept in 1972 has averaged 13% per year. To remain on the conservative side, we have based our estimates on a value of the 6–7% annual price increase that has been documented for lumber in general by the forest industry over the last 100 years.

In the case of tropical hardwoods, this is very conservative. For Koa, demand and limited supply has resulted in a price increase of more than 1,000% in just the last 10 years.

Koa is a truly magnificent tropical hardwood that is unique to Hawaii. Agriculture and clear cut lumber practices of the past century eliminated over 90% of the koa forests. Strong preservation measures are defending the remaining native stands. With it's strong international following as a superior wood for musical instruments, and it's large market for Hawaii's dense population of fine wood artists, who turn this native tree into fine works of art, the demand for koa is increasing. This has fostered a new interest in cultivating koa for the wood artisan market.

The potential rewards and the satisfaction of bringing a sustainable source of this wood to market have lead to our focus on koa for this year's planting. The limited range of koa was a major consideration. Knowledge is growing rapidly, but koa's behavior as a plantation tree

is certainly not as well understood as other species. In developing our projections we have analyzed the performance of a diverse range of tropical hardwoods in plantation settings. Much of our data comes from the performance of Acacia Mangium a very closely related tree from the same genus. Koa has tremendous diversity in appearance and accordingly commands a wide range of prices. In typical lumber outlets in Hawaii it can have a retail range from $20 to $125 a board foot. Wholesale information is difficult to come by, but conservatively it could be 50% of these numbers.

Assumptions and Projection Notes

Trees are sold in 100 tree blocks. Even though tree growth can vary between species and location, for the purpose of this analysis we will are using the growth rates typical of other plantation grown tropical hardwoods. Intensive management practices such as supplementing major and minor nutrients, selective thinning of stands as the canopy closes and protection from competitors and pests is expected to result in growth rates similar to plantation grown Acacia Mangium and other tropical hardwoods. A very conservative starting price for wholesale koa was set at $9.00 per board foot.

Trees are planted with an initial spacing of 3 meters to generate a much better early growth form. This encourages long straight trunks and actually increases the yield of quality lumber. Roughly 15% of the trees will be removed prior to achieving

marketable size in order to favor the growth of the best trees and maximize the total yield of lumber. Commercial forestry refers to this process as "releasing" the remaining trees to achieve their full potential. If the trees were planted with greater initial spacing to avoid thinning, the resulting trees will tend toward a bushy growth form with little marketable lumber. If they were planted closer and no trees were removed, their growth would be stunted once the tree canopy closed. This management technique has proven to be the best way to get the most quality lumber out of a planting. The lumber from additional thinning harvests prior to the final harvest is treated as marketable for the purposes of these calculations. Market conditions at the time will determine actual prices for the lumber produced.

We are assuming a conservative 6% rate of lumber value inflation. The actual rate of increase has been closer to 13% for tropical hardwood lumber. We have applied this same rate of increase in the cost of milling, harvesting and processing. We are basing the yields, thinning and harvesting rates on the experience of other tree farms in Hawaii and in Central America, but the amount of this charge will be based on the actual cost at the time of harvest. The actual timing and amount taken at any thinning or harvest will be determined in consultation with our forestry team and be based on best practices and the most current scientific information. The projection tables are intended to give you a better understanding of the process, but actual results may differ from these estimates in either direction. The 10% maintenance and care fees are not charged to the tree owner until their lumber is either ready to deliver to them or is sold for them. If it is sold for them it is deducted from the proceeds of the sale. If the lumber is to be delivered to the tree owner or another designated party, the harvesting, milling, processing, care, maintenance and shipping costs will be billed at that time.

The growth rate of trees and the market value of lumber are both influenced by a wide array of factors. It is possible to get a feeling for the future value of trees planted today from the historical trends and expert opinion of what the future holds for the tropical hardwood markets. The first table of koa projections is a blend of what we consider both conservative and likely. Dozens of contributing factors

have been gleaned from a wide range of sources to arrive at this compact and readable table. There are many possible variations of this table based on changes to some of the basic assumptions. To get a feeling of how changes in some of the assumptions affect the results, we have included two additional tables showing what would happen with some of the possible changes.

Carrying Capacity

One of the factors that greatly affect the yield of tree farms in general is the carrying capacity of the land. One of the ways this is quantified is as basal area per acre. This is the total cross sectional area of the bases of all of the trees in one acre of land. To get a starting value for the carrying capacity of our unique planting site we examined a high density test planting within the property. It had a basal area of 477 square feet per acre. For our projections we utilized a carrying capacity of 250 square feet per acre. This results in the values obtained for the thinning and harvesting rates shown in the primary table. In our two comparable tables we reduced this carrying capacity to 175 square feet per acre. This would result in higher thinning rates and less trees in the final harvests. One could develop limitless tables just by varying this parameter between the reasonable ranges of 150 to 475 square feet per acre. 250 square feet per acre seem a reasonable expectation.

Cost & Value of Early Harvest Timber

Another variable that has been considered is the value of early harvest timber. In all cases we assign no value to the trees that are culled or thinned in years 1–7. We do however value the wood derived from the year 8 thinning harvest. Our projections are based on marketing this lumber at the projected lumber value at that time. As mentioned above, this value has been obtained by taking a current discounted value of $9.00 per board foot for koa and adding an annual price increase percentage. For the two alternate tables we reduced the value of this thinning harvest by cutting the value in half. That is intended to offset any difficulty in marketing early harvest lumber. Our market research leads us to believe that a full value market can be developed for that timber. Additionally, it was a concern that costs of processing smaller timber might be higher than anticipated so for the alternate tables we doubled the cost of milling and processing.

Lumber Value Increase Rate

As mentioned above, we have assumed a rate of price increase for marketable lumber of 6% per year. The actual rate for all tropical hardwoods as a group has been around 13% per year. Koa vastly exceeded even the most generous of these increase rates. To adjust for that possibility we used rates of price increase of 7% per year and 9% per year in the alternate tables.

Summary

Any projection of future yields, of either timber or financial value, is greatly influenced by the assumptions made in creating these tables. We strive to be balanced in our choice of these values. The alternate tables are presented to give the tree owner some insight into the processes involved and aid them in making their purchase decisions. We encourage everyone to make every effort in evaluating the reasonableness of these assumptions. Many other factors will influence the outcome of a given tree crop. As the science evolves, HLH will adjust procedures to maximize yields.

Koa Projection Table

Projections for 100 Koa Trees (see notes)

Yr.	Number of Trees Harvested	Marketable Wood per Tree in Board Feet	Value Per Board Foot	Gross Proceeds	Milling Harvesting and Processing Costs	Net Harvest Proceeds	Maintenance and Care	Harvest Net Profit	Cumulative Net Proceeds
1-7		Non-Marketable		Thinning and selection					
8	37	22	$13.53	$11,013	$407	$10,606	$1,061	$9,546	$9,546
13	10	78	$18.11	$14,126	$515	$13,611	$1,361	$12,250	$21,796
17	10	152	$22.86	$34,747	$1,277	$33,470	$3,347	$30,123	$51,919
21	17	260	$28.86	$127,561	$4,685	$122,876	$12,288	$110,588	$162,507
25	11	354	$36.44	$141,897	$5,218	$136,679	$13,668	$123,011	$285,519
							Total Proceeds		**$285,519**

This projection table is based on the following assumptions:

- The market price for koa in today's market is $9.00 per board foot.
- The rate of increase in market prices for koa will average 6% per year
- The carrying capacity of our planting site is 175 square feet of basal area per acre.
- The average growth rate is 1" of diameter per year.
- The overall mortality and initial culling rate is 15%.
- The milling and harvesting costs will remain the same for small diameter trees.
- The market value for 8 year old timber will be consistent with the overall koa market.

Koa Projection Table Alternate #1

Projections for 100 Koa Trees (see notes)

Yr.	Number of Trees Harvested	Marketable Wood per Tree in Board Feet	Value Per Board Foot	Gross Proceeds	Milling Harvesting and Processing Costs	Net Harvest Proceeds	Maintenance and Care	Harvest Net Profit	Cumulative Net Proceeds
1-7		Non-Marketable		Thinning and selection					
8	43	23	$7.23	$7,146	$989	$6,157	$616	$5,541	$5,541
13	16	91	$20.27	$29,513	$961	$28,552	$2,855	$25,697	$31,238
17	9	155	$26.57	$37,065	$921	$36,144	$3,614	$32,530	$63,768
21	3	260	$34.83	$27,167	$515	$26,653	$2,665	$23,987	$87,755
25	9	356	$45.65	$146,263	$2,115	$144,148	$14,415	$129,733	$217,488
							Total Proceeds		**$217,488**

This projection table is based on the following assumptions:

- The market price for koa in today's market is $9.00 per board foot.
- The rate of increase in market prices for koa will average 7% per year.
- The carrying capacity of our planting site is 175 square feet of basal area per acre.
- The average growth rate is 1" of diameter per year.
- The initial culling and mortality rate is 15% with another 5% over 25 years.
- The milling and harvesting costs for small diameter trees will be double the average.
- The market value for 8 year old timber will be one half the overall koa market.

Koa Projection Table Alternate #2

Projections for 100 Koa Trees (see notes)

Yr.	Number of Trees Harvested	Marketable Wood per Tree in Board Feet	Value Per Board Foot	Gross Proceeds	Milling Harvesting and Processing Costs	Net Harvest Proceeds	Maintenance and Care	Harvest Net Profit	Cumulative Net Proceeds
1-7		Non-Marketable		Thinning and selection					
8	43	23	$8.23	$8,135	$989	$7,146	$715	$6,431	$6,431
13	16	91	$25.31	$36,851	$961	$35,890	$3,589	$32,301	$38,732
17	9	155	$35.73	$49,843	$921	$48,923	$4,892	$44,030	$82,763
21	3	260	$50.44	$39,343	$515	$38,828	$3,883	$34,946	$117,708
25	9	356	$71.20	$228,125	$2,115	$226,010	$22,601	$203,409	$321,117
							Total Proceeds		**$321,117**

This projection table is based on the following assumptions:

- The market price for koa in today's market is $9.00 per board foot.
- The rate of increase in market prices for koa will average 9% per year.
- The carrying capacity of our planting site is 175 square feet of basal area per acre.
- The average growth rate is 1" of diameter per year.
- The initial culling and mortality rate is 15% with another 5% over 25 years.
- The milling and harvesting costs for small diameter trees will be double the average.
- The market value for 8 year old timber will be one half the overall koa market.

Environmental Risk Factors

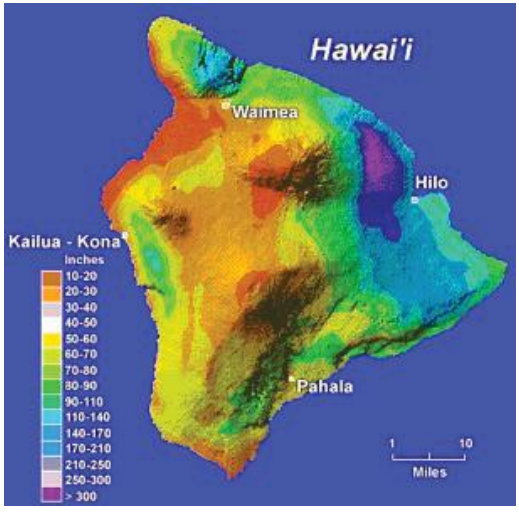
Of all the risks to a forest resource, fire is the most universally feared. Every year California experiences forest fires during its dry season. These fires are often started by lightning. The meteorological conditions in Hawaii make lightning a very rare occurrence.

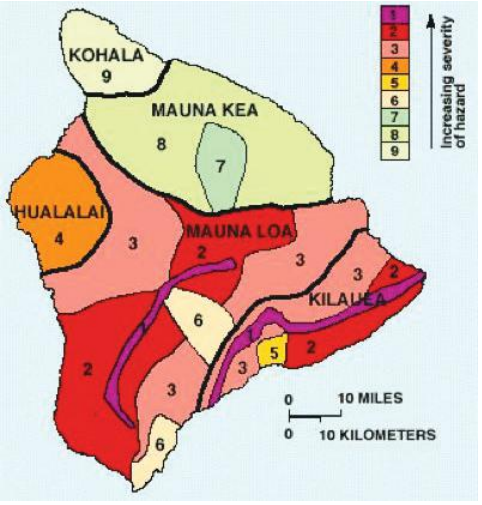
Hawaii Island Annual Rainfall Map

The continuously wet conditions along the windward (Northeast) coast of the Big Island make it a low risk area for forest fires. To get an idea of the amount of rainfall you can refer to the map below. Beyond reducing the fire risk, these lush conditions also allow us to avoid the major expense of irrigation. Our growing areas have 60 inches of rain or more per year. Rainfall is so consistent that irrigation is unnecessary allowing us to keep costs down and not waste another valuable resource.

Hawaii Island Lava Risk

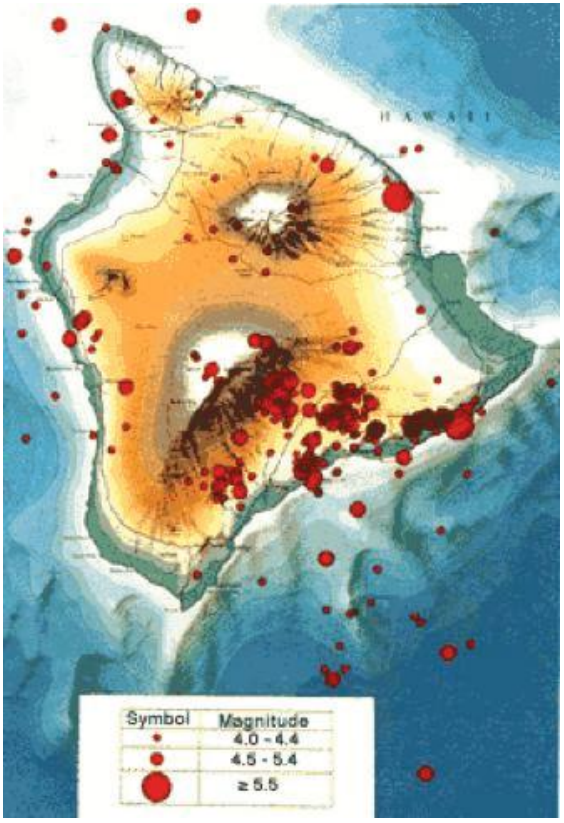
The Hawaiian Islands are volcanic in nature and potential for lava flows must be considered. The Islands are oceanic shield volcanoes and as a result produce very fluid lava that is highly predictable. It does not have the characteristics associated with volcanoes like Mount St. Helens. All farm sites used for the tree owner program will be in lava hazard zone 8 as classified by the United States Geological Survey (*http://hvo.wr.usgs.gov/hazards/*) or in areas where there are no identifiable flows in recorded history. Zone 8 is one of the lowest risk areas with no area being affected since 1800 and less than 1% affected in the last 10,000 years. The map below is produced by the USGS:





Hawaii Island Earthquake Risk

The only risk that earthquakes pose to tree farms is if they result in landslides along steep slopes. The generally low intensity of Hawaii's earthquakes makes this a very small risk. Most quakes are not even noticed by the residents and only show up on sensitive recording equipment. This is even less of an issue with tree farms since steep slopes are not suitable for planting trees. The following map shows the location and intensity of quakes on the Big Island. Most of them are clustered in areas of current volcanic activity in the southern part of the Big Island. The lava risk and the earthquake risk tend to cluster together.

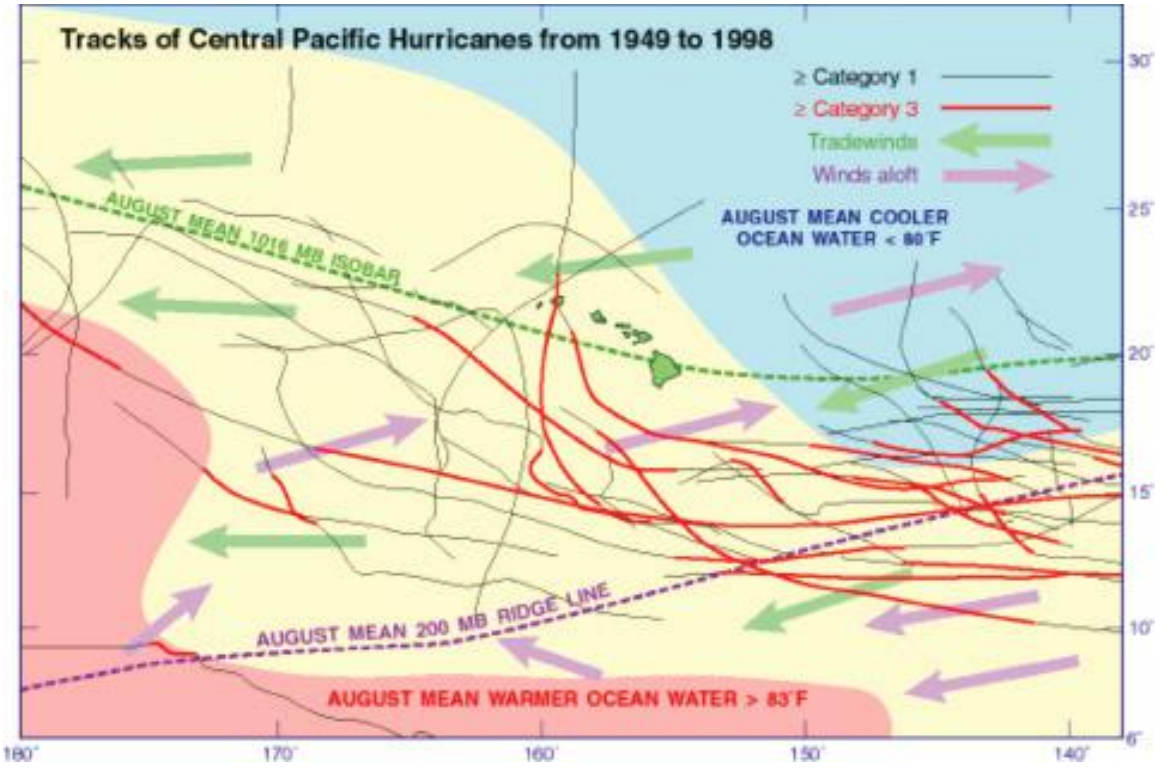


Central Pacific Hurricane Tracks

Hurricane and storm force winds can topple trees in areas that are impacted by them. Hawaii has had the good fortune of being in slightly cooler water, reducing the frequency and intensity of hurricanes. In the last 60 years, covered by the map on the opposite page, no hurricanes have made landfall on the Big Island. The map from the University of Hawaii Meteorology Department shows the tracks and intensities of recent hurricanes in the Central Pacific. Although it is no guarantee of future weather patterns, Hawaii has not been subjected to the storm frequency or intensity experienced by the Southeastern United States and the Caribbean.

This by no means constitutes a complete analysis of all possible risks. Hawaiian Legacy Hardwoods encourages any concerned potential tree owner to consult with suitable professionals of their own selection.

One can never quantify all the risks of an enterprise, but all care has been taken to minimize exposure to environmental, geological and meteorological risk. The market force risks are covered in the Projections section. Although changes in government policy are hard to predict, public opinion and the current administration



recognize the need for sustainable environmental practices. This trend will favor enterprises that take pressure off precious and endangered resources. The risk of diseases and insects are constantly monitored by our forestry professionals. Hawaii's geographic isolation reduces the threat of many pests that are common in other parts of the world. By continually monitoring the tree farm, Hawaiian Legacy Hardwoods works to minimize any pest threats through early detection and treatment.

Forests for Hawaii's Future

KEYNOTE ADDRESS OF SENATOR DANIEL K. AKAKA
FORESTRY 2000 CONFERENCE
January 12, 2000

Aloha, and Happy New Year. Welcome to a new century and a new millennium.

Wasn't it exciting to celebrate the dawn of the third millennium? The enthusiasm is only beginning to subside.

As the new year marched from time zone to time zone, the world watched as celebrations spread from culture to culture around the globe. Whether it was Fijian natives who were the first to ring in the New Year, Times Square revelers watching the crystal ball drop, or crowds cheering at Aloha Tower when the clock struck midnight, it was a marvelous global millennium event.

We bid goodbye to the 20th century and dream of the changes that the next hundred, or the next thousand years will bring. No one knows what the future holds, but we know that the future will depend upon us. Certainly the future of Hawaii's forests rests in our hands. That is why we gather for the Forestry 2010 conference.

After the celebrations end, after the excitement dims and the euphoria fades, after the musicians pack up and the champagne loses its fizz, the real work of shaping enduring legacies for a new millennium begins.

In the days ahead, you will review the promise of the Hawaii Tropical Forest Recovery Act and its action plan, and debate the future of sustainable forestry in Hawaii. I ask you to remember that the resource you are discussing cannot be understood in a time frame of years, or even decades. Our forests have natural life-cycles that are measured in centuries. Hawaii's tropical forests are truly a millennium resource. They demand resource planning on an equally grand scale.

In the seven years since the Act was signed into law, many people have thanked me for my efforts to enact tropical forestry

legislation. While I am genuinely grateful for their appreciation, the legislation was just a beginning. The hard work began when the task force assembled to develop an action plan. Hundreds of individuals and many organizations contributed time and ideas to this effort, and produced 135 action items, many of which have become guiding principles for the management of Hawaii's tropical forests. The Tropical Forest Action Plan is as relevant today as when it was written six years ago. The core concepts of stewardship, sustainable development, habitat conservation, and sensitivity to community needs are sound principles that have achieved widespread acceptance in the national and global forestry consciousness since the Hawaii plan was released. You should take comfort knowing that the concepts expressed in the action plan reflect the mainstream of enlightened forest planning today. The broad course you charted in 1994 is clearly the right one.

The experience of many other public and private forestry ventures also affirms the concepts in the Action Plan. Sustainable principles have emerged as a growing force in the forestry industry. Sustainable forest management, in general, and forest certification in particular, have transformed industry management practices in the past five years. Certified wood products are now synonymous with environmentally sound forest practices. Because certification focuses the attention of consumers and producers on the health of the forest where the product is harvested, certification has become a driving force in the sustainable movement today. Since the Hawaii Tropical Forest Recovery Act was enacted, 40 million acres in 30 countries have received a certification seal.

Advocates of certification and other sustainable practices must recognize, however, that these principles usually impose higher costs on landowners than conventional techniques, especially in the near-term. If government, local communities, and the non-governmental sector fail to vigorously support enlightened landowners who employ sustainable methods, we should not be surprised if certification and sustainable forestry fail. We all have an obligation to help sustainable forestry ventures achieve sufficient returns on raw and finished wood products to ensure their success, and the success of communities that surround them.

These are some of the changes since the forestry legislation was enacted. As you develop a 21st Century plan for Hawaii's forests, I ask you to imagine how much change is possible over the course of one hundred or one thousand years. Consider

the remarkable changes we have witnessed in other areas, such as communications. At the beginning of the last millennium few of the world's inhabitants could read or write. The first printed books did not appear until 400 years later. But today, communications travel at Internet speed.

As you consider the future of Hawaii's forests, I urge you to think in bold terms. Set aside short-term agendas. Strive for millennium accomplishments. Look far beyond the walls of this conference room and imagine what vibrant, dynamic, and healthy forests will mean for our economy, our environment, and our children.

—Senator Daniel K. Akaka

About Us

Once in a Generation

HLH is structured to provide a unique opportunity for individuals to own select tropical hardwood trees grown in the State of Hawaii on their behalf. They can do this without having to absorb the huge capital outlays necessary to achieve economies of scale, or deal with the day-to-day management of their trees.

For more than a decade, the owners and investors of Hawaiian Legacy Hardwoods (HLH) have been monitoring the relentless increase in tropical hardwood prices. Price projections showed that there would come a point where profitability would support the high real estate prices in Hawaii. Agricultural lease prices have always been reasonable, but land owners were reluctant to commit to the length of time necessary for a forestry project out of fear that they could miss the next high profit opportunity to sell to real estate developers. In 2008 that all changed. The confluence of two key market conditions provided the perfect setting for HLH.

The first of these two conditions involved tropical timber prices. For more than 100 years, tropical timber prices have been on a continuous increase, making the returns more and more attractive each year. This alone would have eventually been a sufficient

HLH COO, Darrell Fox (left) and HLH CEO, Jeff Dunster (right) under the canopy of a true forest giant in Keauhou, Hawaii.

development to support the project, but the recent downward adjustment in the real estate market (the second condition) has in effect, lowered one of the largest costs of hardwood production in Hawaii. For many years, land prices and availability in suitable growing areas on the Big Island of Hawaii had been priced in anticipation of major development and population growth. With the nationwide decline in real estate values, land owners have become much more reserved about

their expectations for windfall sales and are embracing the future of raising rare tropical hardwoods. These two factors together, created the perfect environment for our investors; an opportunity that could not be duplicated anywhere else in the United States.

HLH principals have been researching and planning this project for more than 10 years. Their backgrounds include degrees in botany, business and economics. The principals have a combined 45+ years of experience in the investment industry as consultants for private and publicly traded companies based in the United States, Canada, Japan and China. Many of these companies focused in the environmental sector with diverse products such as soil remediation and forest product reclamation.

Credentials

Our team has diverse backgrounds, with degrees in biology, business and economics. Our consulting council includes certified forestry managers, botanists, climatologists, and environmentalists.

Some of our Management has been directly involved in other agricultural projects over the years. One was a head biologist for a 10 year project—new techniques were developed that resulted in products that became a U.S. standard for food safety. As part of this project, extensive research led to a new understanding of how nitrogen is cycled through complex ecosystems. Much of this research is directly applicable to forest ecosystems and of particular interest since Koa trees are nitrogen fixing.

Our team also includes the former head of a 31,000 acre sustainable harvest forestry project in Belize. In that role, he managed all aspects of the day to day forestry operations including the milling, certifying and exporting of lumber.

HLH's climatology expert is from a major university and is currently a member of a carbon credit certification task force. It is still not clear how Cap and Trade legislation will evolve in the United States, but there is little doubt that carbon markets are coming. From the first seedling, we are committed to documenting carbon sequestration in order to secure any future value that the carbon markets provide.

Our Unique Technologies

Our IT (Information Technology) specialists are integrating GPS/GIS (Global Positioning System/Geographic Information System) mapping systems with RFID (Radio Frequency IDentification) tagging of each tree to track ownership, growth, maintenance and the lumber yield from each tree owner's stand. These computer chips will provide a unique electronic signature for each tree specifically registered to the tree owner. The GPS/GIS system will locate each tree by an exact set of geographic

coordinates allowing the tree owner to locate their trees on maps and by satellite imagery. It is only a matter of time before you will be able to go on line and use these coordinate to look at your specific trees from space.

Our Commitment

HLH is operated by people with lifetimes of experience in all of the areas necessary to the success of this project. It is a new way of thinking about the timber business making it possible for the individual with limited resources to compete on equal footing with major timber concerns. With the dwindling supply of tropical hardwoods, the diversification that this can bring is unique and unaffected by the instability of the financial markets. As long as land availability continues to fit our business model we will be continuing to offer annual tree plantings to the public.

Hawaiian Legacy Hardwoods Management

Hawaiian Legacy Hardwoods has been blessed with a wealth of talent both within the Company and among our Associates. We would like to take this opportunity to introduce you to a few these individuals. A complete list of HLH team members can be found on our web site at *www.hawaiianlegacyhardwoods.com*. Everyone connected with this project realizes how special an opportunity this is. Hawaii is the only place within the United States that we can grow a diverse selection of tropical hardwoods.

Jeffrey Dunster, CEO

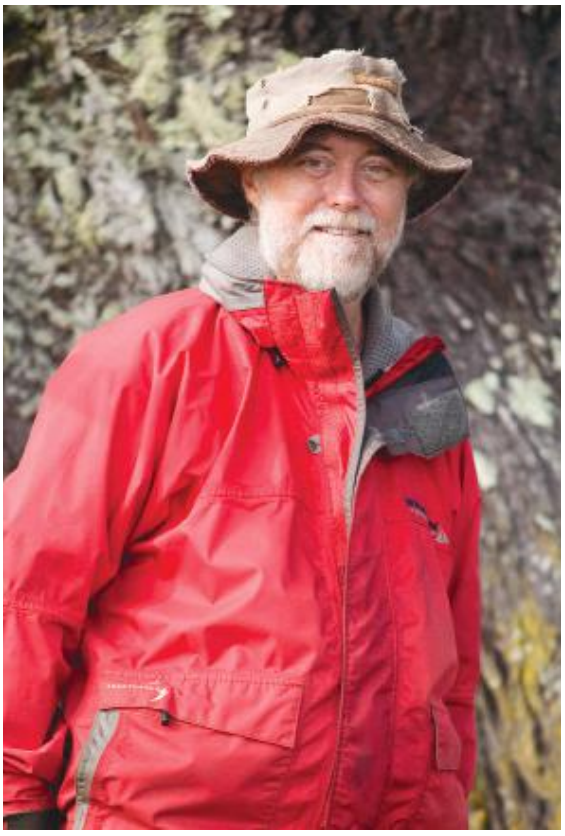
jdunster@hawaiianlegacyhardwoods.com

I received my academy training, my commission in the U.S. Army and my degree in Business from Norwich University in 1982. Thereafter, I served in the Hawaii National Guard as an officer and helicopter pilot and loved every minute of it.

When I was too young to know any better, I became a stock broker, and later, a partner in a brokerage firm with offices stretching from Honolulu to Düsseldorf. After retiring from the securities business in 1990, I began a small Mergers & Acquisitions consulting company with my longtime friend and business partner, Darrell Fox. Over the years, we have had the privilege of consulting for more than two dozen companies worldwide and from many diverse industries. Our expertise in the inner workings of public companies even allowed us the privilege of heading two large shareholder actions in which we successfully removed entrenched corrupt management and restored fiscal controls back to the shareholders.

As cliché as it sounds however, my most challenging and rewarding job has been that of a dad. I have five young children who mean everything to me. As any parent can tell you, the single most important thing you can do for your children is to be a good example. It is so important that we instill in them, a moral compass; one that balances personal goals with personal responsibility. I see the condition of our planet today and it saddens me. It is clear that some members of our own generation and those who came before us, lacked that type of character and have in turn, placed a huge burden on your children and mine.

No single act will repair the environment and no government will ever be able to legislate morality by passing laws. It's simply up to each one of us to make right choices and to pass on that legacy to our children. Hawaiian Legacy Hardwoods was created to allow a new generation of socially responsible individuals an opportunity to secure financial independence for themselves and their loved ones while helping the planet in the process.



Darrell Fox, COO

dfox@hawaiianlegacyhardwoods.com

I graduated Cum Laude with a Bachelor of Science degree in Biology from Wayne State University in 1973. My undergraduate specialty was in Botany and I did extensive graduate research at the University of Hawaii in nutrient cycling. I was twice the recipient of the Achievement Reward for College Scientists.

Upon finishing up with academia, I became the managing partner of an aquaculture project. We designed a state of the art cultivation system for producing premium shellfish for the restaurant industry.

For the last 20 years I have worked with my partner, Jeffrey Dunster, as a consultant to companies both public and private. My special area of interest was companies with operations in the environmental and biomedical fields. One thing that the investment industry taught me is that years of education are only a tool kit that one must decide how to apply to the real world. Another is that as the world changes one must direct their attention to fields that will thrive under the new paradigm.

Deforestation is becoming a global calamity, but it is also the signpost to an incredible opportunity. The growing shortage of tropical hardwood lumber is driving prices at an average of 13% per year. The United Nations Food and Agriculture Organization expects that rate to increase. As a hard asset, lumber of all kinds will rise in value in response to inflation. This makes it a defensive strategy in troubled economic times. I see it as my responsibility to the planet and more personally my responsibility to my wife and children to be a part of the solution.

As one of the founding members of Hawaiian Legacy Hardwoods, I have been able to bring a lifetime of experience to a project that has been in the planning stages for years. We originally looked at this as an opportunity for ourselves and our families, but many of our contacts in the investment industry were interested in finding a way to participate. My experience in the financial and science communities are key elements in blending the biological requirements of growing trees with the financial realities of our times. It is my great pleasure to be able to do something good for the environment while helping individuals find an ethical way to profit in these unsettled economic times.

Flowering Koa

The future of Koa is in your hands

One single Koa among many

HLH COO, Darrell Fox (left) and HLH CEO, Jeff Dunster (right)

Courtesy of Walczuk Productions

Global awareness is turning its focus to the plight of the tropical rainforest. It is becoming evident to all that the price of deforestation will be paid by future generations. Old growth trees like this one are disappearing at an alarming rate. If we act to provide a cultivated source of these fine woods, we can help take pressure off this threatened resource and profit from the ever increasing price for tropical hardwoods.

Frequently Asked Questions

Why does it make sense to grow trees now?

For almost a century, Hawaii's lands were being used to cultivate sugar and pineapple. These crops were high profit and rapid growing, but labor intensive. As other countries developed cheaper labor forces, sugar and pineapple migrated to third world countries. Since Hawaii's population was expanding so rapidly during this time, agricultural land was tied up by investors who anticipated higher prices associated with residential and resort development. Recent global economic uncertainty has caused many of these investors to rethink their plans. This coupled with the continuing increase in hardwood prices has made growing these fine hardwoods on U.S. soil an economic possibility for the first time.

Are there any other hidden costs besides the purchase price of the trees, such as, taxes, annual fees, or other costs not mentioned on the web site or in the Tree Owner Agreement?

No, there are no hidden costs of any kind.

Why are trees only sold in lots of 100?

One of the reasons for the minimum order is the very nature of the forestry management process. Trees must be pruned and thinned with only the best trees growing to full maturity. With a small number of trees this process can create statistical anomalies in yields. Our Projections section will show you how a smaller number would create uncertainties as to how your trees will be managed.

If I purchase, I want my spouse to have joint ownership with rights of survival. How should I indicate this on the Tree Owner Agreement?

Just simply indicate on the Tree Owner Agreement that you want joint ownership by listing both names and add the letters "JTWROS" beneath your names.

When will my trees be planted?

When your paid order is accepted, your trees will be scheduled with the nursery. The first 3–4 months of their life will be under the care of the nursery staff. When they are mature enough for field planting they will be planted as field and weather conditions dictate. When your trees are planted you will receive Registry Documentation showing the exact location of your trees, the quantity, species and the year of planting.

Are there any advantages to being located in the United States?

With growing restrictions on the harvesting and importation of tropical hardwoods from their countries of origin, it may well be very difficult for U.S. markets obtain sufficient

lumber to meet their needs. With our farms on U.S. soil (yes, Hawaii is actually part of the United States) importation restrictions and tariffs will never be a problem. This may well make Hawaiian Branded Hardwoods the first choice for domestic markets.

If this is such a good investment, why aren't others doing it?

First of all, others are doing it. Over the past several decades, millions of trees have been planted for investors throughout Central America where land is cheap and the climate is conducive to growing.

Unfortunately, all of the tree farms in the world meet less than 1–2% of the annual global demand for tropical hardwood. Hawaii and very southern portions of Florida are the only possible climate zones in the United States where these rare tropical trees can be grown.

Why plant trees so close, when many of them will be removed before maturity?

A great deal of knowledge about tree farm management comes from the last hundred years of tree farm operation. One of the things discovered was that trees given too much space will tend to branch early and develop short trunks. The trunk below the first limb is the most valuable lumber in the tree. By crowding the trees in their early growth, long straight trunks can be encouraged.

Why remove any of the trees since 3 meters between trees seems sufficient?

As the tree grows its canopy spreads. When the tree canopies start to touch one another the trees start competing for sunlight and growth slows. By timely thinning, the best trees are "released" to maximize the lumber yield of the total original stand.

Are forest fires a problem?

Forest fires are generally a problem in regions with significant dry seasons. The windward side of the Big Island receives over 100 inches of rain a year and a bigger problem for the tree farmer is that the land can be too wet for farm equipment to operate during portions of the year. Additionally an aggressive campaign of weed control prevents the accumulation of fuel for a fire to get started in the first place.

Are hurricanes a problem in your area?

Hurricanes are infrequent in the Hawaiian Islands and if you look at the map in the Environmental Risk section you will see that none have hit the Big Island of Hawaii since accurate records started being kept in the 1940s.

I heard about lava flows in Hawaii are they a risk to my trees?

All farm sites used for the tree owner program will be in lava hazard zone 8 as classified by the United States Geological

Survey or in areas where there are no identifiable flows in recorded history. Zone 8 is one of the lowest risk areas with no area being affected since 1800 and less than 1% affected in the last 10,000 years.

Are diseases and pests a problem?

The risk of diseases and insects are constantly monitored by our forestry professionals. Hawaii's geographic isolation reduces the threat of many pests that are common in other parts of the world. By continually monitoring the tree farm, Hawaiian Legacy Hardwoods works to minimize any pest threats through early detection and treatment.

Do your forestry practices have any negative environmental impact and do they follow sustainable guidelines?

Since we are a tree farm and we are planting pasture land, we have no impact on our native forests. We are sustainable by design. Our planting is an ongoing program and will always exceed our harvesting.

What if an endangered species is found in our tree growing area?

Wildlife site surveys are conducted and filed along with the forestry management plan before the first tree goes into the ground. Our obligation under the safe harbor "Right to Harvest" laws is to not degrade the habitat from the condition present at the time of the initial survey. In short the tree owner has the right to harvest their trees even if the trees have become a new habitat. Continual planting assures that there will always be new habitat available.

I've read that monoculture plantations have caused problems with local wildlife in other places. If the HLH trees are planted in monoculture plots, how will HLH avoid wildlife or other environmental problems associated with this type of planting?

The areas we are planting have been open pasture land for decades and have no endemic wildlife on it at this time. Further, before it was harvested in the 1960s these lands were once pristine Koa forests. We would simply be returning the land to its natural state. In addition, we file detailed forestry management plans with DOFAW (Department of Forestry and Wildlife) which meet all wildlife protection requirements. As for monoculture planting, the only real commercial species that will do well at the higher elevations is Koa and this would not be an issue.

If my trees are increasing in value every year, do I have to pay income tax on that increase?

Until you sell the lumber from your trees you have no obligation to report the gain

or pay tax on the gain. Once your trees are harvested and the lumber is sold you must report the gain and pay taxes at that time.

Can I own trees in my retirement account?

There are asset management companies set up to handle IRA, 401K and other types of trust and retirement accounts that hold hard assets. If you have trouble locating a firm that can handle this we can direct you to companies who specialize in this field.

Is it possible to sell my trees before the final harvest?

As a tree owner you have the right to sell the trees to anyone at any time during the life of the trees. If you choose to do this we will help you prepare the documentation to transfer ownership in our tree registry. Any replacement owner will be bound by the same terms and conditions of your tree owner's agreement. Because we are in constant contact with tree owners we may be able to help you find a buyer. Some in the wood products industry may be looking to plan for their lumber needs on shorter time horizons.

When can I expect my trees to be harvested?

The exact timing of thinning harvests and final harvest will be determined by our forestry team. If you look at the tables in the projections section, you will see harvest years based on the results from tree farms as diverse as Hawaii, Indonesia and Central America. The first harvest producing marketable timber is projected as occurring in year 8 with periodic harvests every 3–4 years leading to a final harvest at year 25. Teak is well documented, but the exact schedules for other species are not as well known.

Would the lumber from our trees be FSC certified or carry any other credentials assuring sustainable practices?

We are constantly working with our forestry people to insure we meet all FSC guidelines. In addition, because each tree is uniquely identified through the RFID system, we meet all chain of custody issues automatically.

Can I deduct the cost of travel to inspect my trees?

You should contact your tax advisor regarding your particular situation. If the inspection of your trees is the principal reason for your trip, it is likely that a significant portion of your travel and lodging expenses will be deductible. Your tax advisor can tell you what documentation and records you would need to retain.

Are the growing numbers of tree farms going to depress lumber prices?

The World Resource Institute has calculated the current rate of tropical rainforest destruction at 50 million acres a year. They also estimate that less that 700 million acres remain with growing global pressure to protect much of that resource. The confluence of these forces will create a global shortage within 14 years. Currently, tree farms and plantations supply only 1% of the tropical hardwood market. Even given the most optimistic projections, it is highly unlikely tropical hardwood farms will fill more than a few percent of the current worldwide demand.

Do my trees generate carbon credits?

The carbon credit market is in its infancy, but make no mistake it is coming. It is not clear how carbon credits for managed forest resources will be treated, but our climatology advisors are following this market with great interest. By making the personal choice to plant trees, you create an offset to your carbon footprint. Hardwoods, even when harvested are used for products with lasting value and are unlikely to reenter the planet's carbon.

Placing Your Order

Pre-planting Prices

Visit our web site at: www.hlh.co for current pre-planting prices. Please note that last year we were completely sold out of trees, just through our pre-planting orders alone. There was no post-planting inventory available so many orders that came in late in the year were not filled and were added to the wait-list for this year. We process orders on a first-come, first-served basis, so earlier orders will have priority.

Trees must be ordered in lots of 100. One of the reasons for this is the very nature of the forestry management process. Trees must be pruned and thinned with only the best trees growing to full maturity. With a small number of trees, this process can create statistical anomalies and yields.

Our Projections section will show you how a smaller number would create uncertainties as to how your trees will be managed. Prices are anticipated to increase as this season's tree planting gets underway. All orders are on a first come first served basis, and once the annual capacity is reached, all overflow orders will be wait listed and will have first priority for the next planting season. The actual time of cycle any time soon.

Any and all carbon credits associated with your trees are yours to keep or sell.

What information will I receive about my trees?

When your trees are planted you will receive Registry Documentation showing the exact location of your trees, the quantity, species and the year of planting. You will be entered into the e-mail list for our Entreepreneur™ Newsletter with ongoing updates on lumber markets, HLH progress and other developments affecting tree ownership.

After each thinning and harvest, you will be e-mailed a detailed account of the number of your trees harvested and all associated costs such as milling, drying, care and management. If you choose to have us sell your hardwood we will also include the amount of the net proceeds from your harvest.

How will I receive information about my trees?

In an effort to conserve energy and preserve our natural resources, we are making every effort to minimize the use of paper and the energy required to deliver mail. As a result we will conduct all tree owner communication via e-mail unless otherwise requested.

Planting will be determined in consultation with our forestry team and will vary from site to site.

If you wish to print up an order form to fax or mail in, please download and print our Order Form/Tree Owner Agreement from our web site: www.hlh.co.

Please read the terms of the Tree Owner Agreement carefully and fill in all appropriate information including the number of trees and the total amount of your payment. Please remember that all orders must be in units of 100 trees.

Mail the payment along with the completed order form to:

Hawaiian Legacy Hardwoods, LLC
91 Coelho Way
Honolulu, HI 96817

Please make checks payable to:

Hawaiian Legacy Hardwoods, LLC,
Client Trust Account

If you wish to fax the form and be invoiced, please fax to:

(808) 595-8846

For our international customers please fax to:

001-808-595-8846

18 month old Koa Tree

36 month old Koa Trees

"The activist is not the man who says the river is dirty. The activist is the man who cleans up the river." ~ Ross Perot

"Trees have never heard of the NASDAQ bubble… and they don't know what a War on Terror is" ~ Money Week

"'If we lose the battle against tropical deforestation, we lose the battle against climate change." ~ Prince Charles

"Real prices for timber have steadily risen for more than 100 years - better performance than any other commodity . . ." ~ Smart Money Magazine

"The primary driver of returns- biological growth- is unaffected by economic cycles" ~ Tropical Timber Market Report

"We do not inherit the earth from our ancestors, we borrow it from our children." ~ Native American Proverb